S. HRG. 113–751

FROM POVERTY TO OPPORTUNITY: HOW A FAIR MINIMUM WAGE WILL HELP WORKING FAMILIES SUCCEED

HEARING

OF THE

COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS

UNITED STATES SENATE

ONE HUNDRED THIRTEENTH CONGRESS

SECOND SESSION

ON

EXAMINING HOW A FAIR MINIMUM WAGE WILL HELP WORKING FAMILIES SUCCEED

MARCH 12, 2014

Printed for the use of the Committee on Health, Education, Labor, and Pensions

Available via the World Wide Web: http://www.gpo.gov/fdsys/

U.S. GOVERNMENT PUBLISHING OFFICE

87–178 PDF WASHINGTON : 2015

For sale by the Superintendent of Documents, U.S. Government Publishing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

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STATEMENTS

WEDNESDAY, MARCH 12, 2014

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FROM POVERTY TO OPPORTUNITY: HOW A FAIR MINIMUM WAGE WILL HELP WORKING FAMILIES SUCCEED

WEDNESDAY, MARCH 12, 2014

U.S. SENATE,
COMMITTEE ON HEALTH, EDUCATION, LABOR, AND PENSIONS,
Washington, DC.

The committee met, pursuant to notice, at 9:05 a.m. in room SD–430, Dirksen Senate Office Building, Hon. Tom Harkin, chairman of the committee, presiding.

Present: Senators Harkin, Casey, Franken, Bennet, Baldwin, Murphy, Warren, Alexander, Isakson, Hatch, Roberts, and Scott.

OPENING STATEMENT OF SENATOR HARKIN

The CHAIRMAN. The Committee on Health, Education, Labor, and Pensions will please come to order.

Today we are having a hearing on examining how the raise in minimum wage will help reduce poverty and income inequality and provide opportunities for working families to succeed.

Now, in the interest of time, because we have about six votes starting around 10:30, and I want to hear from all of our witnesses, some who came a great distance to be here at family expense and others. I would like to hurry this up. I am going to forego making a statement. I will just say one sentence and then yield to Senator Alexander. We will turn to Secretary Perez. We will finish with the Secretary in about 25 minutes. Then we will call Dr. Elmendorf. Then we will have time for our other four people who are here as our witnesses. So I will put my statement in the record.

I will just say this. My feeling is that no one who works full-time in our society ought to live in poverty, and supplementing that with welfare, EITC, Earned Income Tax Credit, food stamps, TANF, child care is not the answer. The answer is just raising the minimum wage. That is all I have to say about it.

With that, I will turn to Senator Alexander.

[The prepared statement of Senator Harkin follows:]

PREPARED STATEMENT OF SENATOR HARKIN

In his State of the Union address this year, President Obama said, "No one who works full-time should ever have to raise a family in poverty." I strongly agree. Indeed, that statement expresses a core American value.

But today, sadly, we are falling short. Millions of working families are being left behind. Our country is enormously wealthy, and

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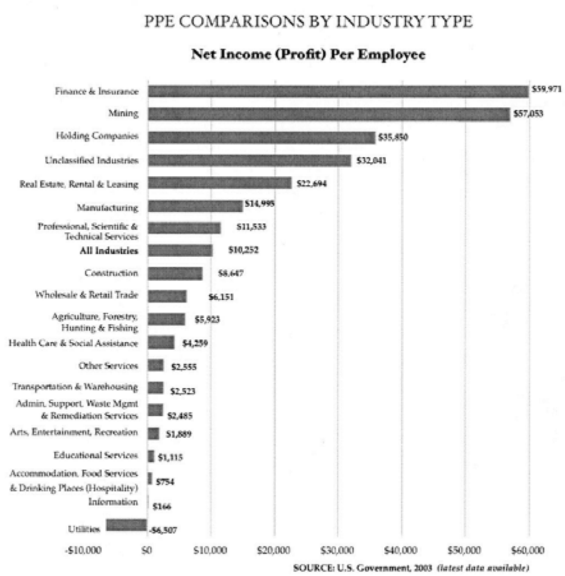
the wealthiest members of our society have seen their income skyrocket in recent years. But the people at the bottom and in the middle, who go to work day in and day out and rely on their wages for their families' well-being, are not sharing in the benefits of our growing economy. In fact, median household income has fallen 9 percent since 1999. Former labor secretary Robert Reich tells us that the 400 richest people in America now have more wealth than the bottom 150 million combined.

Meanwhile, tens of millions of hardworking Americans are struggling just to keep a roof over their heads, to pay their heating bill, to find extra funds for a new pair of shoes for a growing child, even to cobble together the change to take a bus rather than walking miles to work. When working families must rely on food stamps and food banks to feed their children because their wages are so low, that is unacceptable. We simply must find a way to shore up the incomes of working Americans. You just can't get ahead if your job traps you in poverty.

We used to agree that minimum-wage workers—people who perform some of the most difficult and essential jobs in our society—should not have to live in poverty.



Profit (Net Income) Per Employee comparisons clearly illustrate the large discrepancies between industries that are currently ignored by lawmakers writing business mandates, putting low-margin industries as a distinct and unfair disadvantage.

The minimum wage kept families above the poverty line in the 1960s and 1970s. But since the 1980s, the minimum wage has lost ground to inflation and is no longer enough to allow a full-time minimum wage worker and his or her family to rise above the poverty line.

It's no wonder that many working people, today, have to turn to the safety net. In fact, a recent study found that taxpayers are picking up the tab for millions of working families to survive—to

the tune of $240 billion a year—because their employers pay rock-bottom, poverty wages. A survey of low-wage workers by Oxfam America last year found that two-thirds of workers earning under $10 an hour must use public assistance to get by. (I am submitting for the record a statement by Oxfam America with more information which can be found in Additional Material.) This isn't by choice—the low-wage workers that I have spoken with want to be self-sufficient, but we simply aren't giving them that chance.

We have a moral obligation to fix poverty wages. And we *can* fix them. We *can* make work a way out of poverty again by raising the minimum wage—one of our Nation's simplest and most effective means to lift working families out of poverty.

My legislation, the Minimum Wage Fairness Act, introduced along with Majority Leader Reid, will raise the minimum wage to $10.10 an hour in three annual steps; it will link the minimum wage to the cost-of-living in the future; and it will provide for a raise in the minimum wage for tipped workers for the first time in more than 20 years.

When it is fully implemented, the minimum wage will no longer be a poverty wage. It will lift families above the poverty line. And through the indexing mechanism, it will *keep* families above the poverty line.

In fact, new research shows that raising the minimum wage will reduce poverty, including the CBO report that we will discuss more in depth today. And a major new economic study from Dr. Arindrajit Dube at the University of Massachusetts at Amherst looked at the historical effects of minimum wage increases, and his work shows that our bill will have an even greater effect on poverty. His study projects that, under my bill, 4.6 million Americans would be lifted above the poverty line when the $10.10 wage is fully implemented, and that number will rise to 6.8 million people in the second year after implementation.

But this is not just about statistics. The additional income from a higher minimum wage will make a powerful difference in working families' lives. It could pay for 7 months of groceries, or 6 months of rent. It could buy an additional 1,600 gallons of gasoline a year. Families may be able to put some funds away for a rainy day, or pay for that community college course that will help them get ahead.

Now, once we raise the minimum wage, our work to reduce poverty won't be done. The minimum wage is not the sole, silver-bullet solution to poverty. There will always be many Americans who are temporarily unemployed, who are unable to work, or who are beyond their working years; they will need different types of assistance. But raising the minimum wage is an essential component of any effort to reduce poverty and income inequality. We cannot eradicate poverty—particularly for the working poor and their children—until work is truly a path out of poverty, not a trap keeping people down. Furthermore, as our economy grows, simple justice requires that prosperity must reach those at the bottom as well as those at the top.

Families need a basic foundation of economic security to start building a better life. A fair minimum wage ensures that someone who chooses to work, who proudly takes a job tending to children

or the elderly, or serving food in a restaurant, or cleaning a hotel room, is not consigned to live in desperate poverty. A fair minimum wage sets a floor below which no worker is allowed to fall. It helps to lift families out of poverty and provides them the opportunity to get ahead and to give their children a chance at a better life.

We have a distinguished panel here today, and I look forward to their testimony. I'd especially like to thank our minimum wage worker, Alicia McCrary, who traveled here from Iowa to speak today. I know it is very difficult to travel when you are raising a family, and I am so pleased that you are here with us today. We had another minimum wage worker witness scheduled to speak at our original hearing date, Ms. Gwen Moore of Minnesota. I ask unanimous consent to include her prepared statement in the record. We can never have too many stories from hardworking people.

OPENING STATEMENT OF SENATOR ALEXANDER

Senator ALEXANDER. I will be equally brief.

I believe families should not live in poverty, and I think the idea of raising the minimum wage to address that is a stale, bankrupt, ineffective policy that, according to the Congressional Budget Office, costs low-wage workers 500,000 jobs, makes it harder to create more jobs, and gives most of the benefits to—80 percent of the benefits—to families above the poverty level. We have a number of amendments and proposals that we are looking forward to offering to this bill when we have a markup that will create a pro-growth economy with more good jobs.

The CHAIRMAN. And there I think you have the debate.

[Laughter.]

Thank you, Senator Alexander.

With that, Mr. Secretary, welcome back and thank you for your great leadership at the Department of Labor on this issue and a host of other issues that affect working families all over America. We are extremely proud of your leadership there. We will turn to you. Your statement will be made a part of the record in its entirety. It is a great statement. I read it last night. But if you could kind of collapse it a little bit, I would sure appreciate it.

STATEMENT OF HON. THOMAS E. PEREZ, SECRETARY OF LABOR, WASHINGTON, DC

Secretary PEREZ. You have set a tone, Mr. Chairman and Senator Alexander. You set a tone of brevity that I will try to do my best to follow. I will start by saying thank you to both of you for the courtesy you always show me. Thank you, Senator Harkin, for your leadership.

Three-quarters of a century ago, Congress passed the Fair Labor Standards Act, landmark legislation that set a wage floor below which no American would be allowed to fall. The FLSA embodied the principle that you just stated, that no one who works a full-time job in America should live in poverty and that we should reward work with fair wages. The ultimate fair labor standard is a fair wage.

In the ensuing decades, bipartisan majorities in Congress, working with Democratic and Republican Presidents, have periodically

raised the minimum wage so it would keep pace with the cost of living. According to the Economic Policy Institute, throughout the 1960s and 1970s, a worker could support a family of two on the minimum wage.

But the purchasing power of the minimum wage has eroded over time, undermining the economic security of families. Today, the minimum wage is worth about 20 percent less than when Ronald Reagan was in office. Imagine taking a 20 percent pay cut from what you were making 30 years ago.

Members of both parties often speak with great accuracy about the importance of promoting economic self-sufficiency, but freezing the minimum wage at $7.25 an hour does precisely the opposite. In fact, it is driving people to safety net programs. A recent study concluded that workers in the fast food industry are relying on public assistance to the tune of $7 billion a year. A recent report from the Center for American Progress noted that passing Harkin-Miller would reduce food stamps expenditures by $4.6 billion a year and reduce the food stamps rolls by roughly 3.5 million people.

I have met so many people, a number of whom are here, and they will tell you their heartbreaking stories of living at or near the minimum wage, making choices, a gallon of milk versus a gallon of gas, pay the electric bill or get the medicine for your child. Their lives are filled with anxiety and struggle, and they have immense pride and self-respect. They do not want a handout. They just want their hard work to be rewarded with a fair wage. They want to be independent and self-sufficient, and they want and need a raise.

It is not just workers that I speak to in my journey, learning about the minimum wage. It is employers of all sizes who are embracing this idea. They understand that higher wages are part of a successful business model, increasing morale and productivity, cutting turnover and training costs. A March 2014 poll from the Small Business Majority showed that 57 percent of small business owners support raising the minimum wage to $10.10.

I speak regularly with business owners of all sizes such as Costco's CEO Craig Jelinek, whom I saw last week, and he has demonstrated that it is possible to take care of your workers and take care of your shareholders and offer good products at a fair price.

I met with the Gap last week when I was in San Francisco. They raised their wages to $10.10, and they see this as a smart investment in their workforce.

I spoke to another employer last week in Washington State who said this is a consumption-deprived economy and what I need most is customers. And when you put money in people's pockets, they spend it and I get more customers.

I have seen it in the neighborhood Ace Hardware Store in Takoma Park where I live where the owner there says paying workers above the minimum wage translates into excellent customer service that has helped her build a thriving business.

I have seen it in the restaurant industry talking to small restaurant owners, talking to a guy named Randy Garutti who is the owner of Shake Shack. There are 40 Shake Shack locations here and across the country and across the globe. He has demonstrated

that you can have the burger industry, pay your workers a fair wage, and make a buck.

The bottom line is this, Mr. Chairman. Americans deserve a raise, a raise in the Federal minimum wage from $7.25 to $10.10 an hour. It would make a difference in the lives of more than 28 million workers, giving them a little more breathing room and peace of mind. It would help lift 2 million people out of poverty. It would help 12 million people who are in poverty, and it would stimulate the economy by putting money in people's pockets.

Also, your legislation would take the long overdue step of increasing the minimum wage for tipped workers, which has been frozen at $2.13 an hour since 1991. Tipped workers are disproportionately women and are three times as likely as other workers to be living in poverty. They really need a raise.

Your indexing proposal is also critical as we cannot continue to allow the minimum wage to lose its purchasing power.

President Obama has laid out an agenda based on the principle of opportunity for all and the belief that our destinies are not predetermined by the circumstances of our birth. Everyone should have a chance to succeed and that means honoring the dignity of work with a wage that pays some security and a chance to provide a better life for families. For millions of Americans, Mr. Chairman, the opportunity quilt is fraying because they are working harder and falling behind. This bill will permit them to get access to the fair wages that they need and enable them to lift themselves out of poverty and get a decent wage.

Thank you, Mr. Chairman. I think I almost made my time.

[The prepared statement of Secretary Perez follows:]

PREPARED STATEMENT OF THOMAS E. PEREZ

Good morning Chairman Harkin, Ranking Member Alexander, and members of the committee. It's an honor to appear before this committee as I did last April for my confirmation hearing. In nearly 8 months as Secretary of Labor, I've benefited greatly from the counsel of members of this panel. And I look forward to a strong and constructive partnership with you in the years ahead.

In his State of the Union address, President Obama laid out an agenda based on the principle of opportunity for all. What's always set America apart is the belief that our destinies shouldn't be pre-determined by the circumstances of our birth. Everyone, through hard work and personal responsibility, should have the chance to succeed and create a better life for themselves and their families.

To realize that vision, we have to continue to grow the economy and the availability of jobs with good wages—jobs in construction, in manufacturing, in energy and throughout the economy. We also need to provide training opportunities to empower our workers with the skills and credentials that enable them to get those jobs—that is, in fact, one of the linchpins of our work at the U.S. Department of Labor. It all has to start with a world-class education, beginning when a child is 4 years old. It includes access to affordable health care that is always there when you need it. And it includes the opportunity to build a nest egg and save for retirement.

This vision is embedded in the American social contract. It is consistent with the idea that we don't leave anyone behind. That, when times are tough, Americans don't say everyone is on their own to fend for themselves. We say that we're all in this together.

And at the heart of it all is the belief that hard work must pay off, that Americans deserve a wage they can live on. That is why President Obama believes we must raise the Federal minimum wage from the current level of $7.25 to $10.10 per hour. Many members of this committee have been strong supporters of this increase; but none more so than Chairman Harkin, as the sponsor of S. 460 and a relentless champion for working families throughout nearly four decades of service in the House and the Senate.

Americans deserve a raise. Increasing the Federal minimum wage to $10.10 would make a powerful difference in millions of lives. Based on tabulations from the Council of Economic Advisers (CEA), it would benefit 28 million workers, giving them a little bit more breathing room and peace of mind. It would raise incomes for an estimated 12 million people now in poverty, lifting about 2 million of them out of poverty.

The Federal minimum wage has been frozen at $7.25 an hour since 2009. Meanwhile, the price of almost everything a working family needs to live their lives is going up. A gallon of milk, a gallon of gas, a month's rent, a pair of children's shoes—of course, they all cost more than they did in 2009. In fact, the purchasing power of the minimum wage has been on a steady decline for many decades. It's worth about 20 percent less than it was when President Reagan took office. Adjusting for inflation, the minimum wage peaked in the 1960s at $10.69 in today's dollars, 47 percent *more* than its current value.

That diminishing value is undermining the economic security of millions of families. It has contributed to deepening inequality and a lack of upward mobility throughout the country, because, despite the myth that's been propagated, minimum wage workers are not just teenagers looking to earn a little extra to supplement their allowances. In fact, according to CEA, 88 percent of those who would benefit from an increase to $10.10 an hour are age 20 or over and more than 50 percent are women, many of whom have children.

Why do we expect her to take home less even though she's producing more? According to data from the Bureau of Labor Statistics (BLS), since 1979, worker productivity has increased more than 90 percent but real average hourly earnings of production and non-supervisory workers have barely budged—up only 1.3 percent.

I've visited with these hard-working Americans and heard their stories, heartbreaking stories about what it's like to live at or near the minimum wage: The wrenching decisions you have to make. The daily grind and struggle. The apprehension and anxiety. The exhaustion and sense of futility. But these are also people with immense pride, dignity and self-respect. They don't want a handout; they just want a fair day's pay for a fair day's work.

I met with one woman from Durham, NC who, despite 16 years working in the fast food industry, can't even afford a place of her own. She's staying with her adult children and can barely afford the life-sustaining medicine she needs. "We work hard," she told me. "We just want to be treated fair. We want to help ourselves." She knows what it's like to go without. "It's a sad day in America," she said, when you can feed your kids but you can't eat yourself.

In Louisville, I talked with a woman named Honey Dozier who is trying to raise four children on the $7.25 an hour she earns working concessions at a bowling alley. As she put it: "I feel like I have to choose either providing food and necessities for my family or health care, because I can't afford both this month." She also expressed sorrow at the fact that,

> "when you work a low-paying job, you don't earn enough to be a good mother. I don't mind giving 100 percent to my employer, but I should also give 100 percent to my family, and a $7.25 wage doesn't allow that."

Another man from New York talked about having his gas and electricity cutoff for 2 months. He told me: "My mom recently got laid off . . . we had an eviction notice . . . and my mom took out a loan, which I don't think she can pay back."

One St. Louis man is trying hard to climb into the middle class but as he described it: "I'm working 70 hours a week . . . my day starts at 6 a.m. . . . I want to go to college, [but] I don't have time [and] I can't afford it." He added:

> "I shouldn't have to decide: am I going to pay the electric bill or do I pay the heat? I'm a thousand dollars behind in rent now . . . where is this money going to come from?"

He has goals and ambition—we ought to ensure that he has the opportunity to make the most of his abilities and live out his dreams.

He also added that he has burn marks on his arm from working in a commercial kitchen. He can't afford to take a day off from work, even when he has the flu. And this is someone who handles food for a living.

It's startling to learn just how many of these workers are forced to go on food stamps and other forms of public assistance just to make ends meet. A recent study from the University of California-Berkeley concluded that workers in the fast food industry are relying on safety net programs to the tune of a staggering $7 billion a year. A young fast food worker from Milwaukee understands the implications. All that money in public assistance, he explained, "could be used on something else to better the community," if only businesses paid higher than poverty wages.

Not every low-wage worker is in the food services industry, however. From farm workers to motion picture projectionists, there are people struggling at or near the minimum wage. If you work in ski patrol or in the gaming industry or in animal care, you stand to gain from an increase in the minimum wage. Even jobs we associate with a white-collar environment, like bank tellers, are struggling at the very bottom of the wage scale. According to an analysis by a group called the Committee for Better Banks, one-third of bank tellers are depending on government programs to get by—$105 million in food stamps, $250 million through the Earned Income Tax Credit, and $534 million in Medicaid and the Children's Health Insurance Program each year.

I think we're better than this. I don't think a country as great as ours should pay people so little that they need help from the State just to survive. What that amounts to is billions of dollars in taxpayer subsidies for very profitable companies. The American people are filling the gap and stepping in for employers who refuse to pay a wage that their workers can survive on. A recent study from the Center for American Progress concluded that if the Harkin-Miller legislation becomes law, it would mean as many as 3.8 million fewer people enrolled in the Supplemental Nutrition Assistance Program (SNAP), thus reducing spending by nearly $4.6 billion a year.

But it's not just workers themselves who are making the case for a higher minimum wage. Contrary to the conventional wisdom, businesses of all sizes are increasingly embracing the idea too. I've met with them as well, and it's clear that they want to do right by their employees, that they want to take the high road, that they aren't interested in running a race to the bottom.

In fact, just last week Small Business Majority released the findings of a new poll demonstrating that 57 percent of entrepreneurs support raising the minimum wage to $10.10 per hour.

The morning after the State of the Union, I joined the President on a visit to a Costco store just down the road in Prince George's County, MD. Costco has built a wildly successful business based on the idea that you can pay good wages while selling quality products at affordable prices. They've rejected the false choice that says you can serve the interests of your shareholders, or you can serve the interests of your employees, but not both.

I saw the same approach the next day on a visit to an Ace Hardware store just a few blocks away from here. Most of the employees there make $10 per hour. The owner, Gina Schaeffer, talks about how a better wage sends the message that "we value our employees . . . as assets to the business because we know they are the people who are on the front lines with our customers." Better-paid employees are also longer-serving employees, she explained. That translates into "robust knowledge of the products we sell and the services we provide," which means the kind of excellent customer service that has helped Gina build, in just over a decade, a thriving business of nine stores employing 185 people.

But she's not an outlier or an aberration. I talk to employers large and small who understand that raising wages is in their own self-interest and part of a successful business model. It keeps employees loyal and productive. It increases morale and reduces absenteeism.

I spoke to a group of restaurant owners recently and what I heard from them over and over again is that training costs as a result of high turnover rates are one of their biggest business expenses. One of them, a bistro-owner from Brooklyn, told me he used to lose dishwashers every few months, back when he paid them $8.59 per hour. Once he bumped their pay to $11 per hour, he's had great success retaining them—he had the same four dishwashers for all of 2013, which is a pretty big deal when you're running a restaurant.

Many of the restaurant owners I met also feel strongly that we have to do something about the paltry minimum cash wage for tipped workers, which hasn't increased in more than 20 years. The law allows the employer to pay an unconscionable rate of just $2.13 per hour, and to use tips to meet the full minimum wage. Every time in recent history that the minimum wage has been debated, it seems, the interests of tipped workers get left on the cutting room floor.

They work exceedingly hard, under great pressure, at irregular hours. But according to a 2012 study by the National Employment Law Project, restaurant servers—70 percent of whom are women—are three times more likely to be below the poverty line than the overall workforce and twice as likely to be on food stamps. As the report puts it: "Essentially, many of the workers who serve America its food cannot afford to eat." That's why it's so vitally important that the Harkin-Miller legislation raises the minimum cash wage for tipped workers to 70 percent of the full minimum wage.

Businesses cite a lot of reasons for paying well. One gentleman who runs a record store in St. Louis talked to me about it in terms of an investment in his neighborhood:

> "If you think about having a relationship with your community and a relationship with your customers, it starts with your relationship to your employees."

They also very much like the idea of indexing the minimum wage to inflation over time, as the Harkin-Miller bill does. That kind of certainty and predictability is what they need to run their businesses effectively.

What I heard over and over again was the ways that higher wages provide a shot in the arm to the economy by boosting consumer demand. One man who owns a small wholesale nursery in Maryland explained that his workers,

> "are spending 100 percent of their take home pay in the local economy. It's recirculating. They're spending it on rent, groceries, cars, new tires—all the things you need to live."

Workers also understand the larger economic impact. The fast food worker from Durham I met said: "If they would pay us what we need, we could put money back into the economy and pay for what we need. And that strengthens all of us."

This isn't a new or original idea. And no less of a capitalist than Henry Ford understood it. Exactly one hundred years ago, faced with high attrition rates that were damaging his business, he took the unusual step of doubling the wages of his assembly line workers. Because he believed that would reverberate throughout the economy. Here's how he explained his decision:

> "If we can distribute high wages, then that money is going to be spent and it will serve to make storekeepers and distributors and manufacturers and workers in other lines more prosperous and their prosperity will be reflected in our sales. Countrywide high wages spell countrywide prosperity."

Henry Ford was as cunning a businessman as there has ever been. He believed higher wages were key to the Nation's economic vitality. It's as true now as it was then—raising the minimum wage isn't just pro-worker; it's also pro-business. It isn't just the right thing to do; it's the smart thing to do.

The minimum wage is now 75 years old, having been established with President Roosevelt's signing of the Fair Labor Standards Act in 1938. And for as long as a wage floor has even been under consideration, it has been opposed by those who have claimed it would cripple the national economy.

We hear the argument that the consumers will bear the cost of a higher minimum wage, as it will lead to higher prices, particularly on food. But a recent study by the Food Chain Workers Alliance and its partners debunks that myth. It concludes that American households, between eating in and eating out, will spend all of 10 cents more a day on food—*just 10 cents*—if the Miller-Harkin legislation becomes law.

All of the naysaying reminds me a little bit of when I served on the Montgomery County Council, and we wrestled with the issue of a smoking ban in local restaurants. There was a lot of dramatic testimony about how no one would eat out anymore and it would be the ruin of the local food and beverage industry. Well, we passed the smoking ban, and I can assure you that the Montgomery County restaurants continue to do quite well.

When it comes to the minimum wage, the doomsday scenarios have never come to pass and the opponents have consistently been on the wrong side of history. The sky did not fall because we guaranteed workers a minimum level of basic economic security. The U.S. economy has continued to grow—and businesses have continued to thrive—even as the minimum wage has gone up 22 times over the last three quarters of a century. In fact, an analysis of 64 studies of minimum wage increases found "no evidence of a meaningful negative impact on job creation." [1]

Both Democratic and Republican lawmakers throughout the last several decades have understood this. Raising the minimum wage has historically been a bipartisan exercise, often without great contentiousness or controversy.

President George H.W. Bush and a Democratic Congress did it in 1989. President Clinton and a Republican Congress did it in 1996. President George W. Bush and a Democratic Congress did it again in 2007. There's no reason to believe we can't and shouldn't do it in 2014.

[1] Doucouliagos, Hristos and T.D. Stanley. 2009. "Publication Selection Bias in Minimum-Wage Research? A Meta-Regression Analysis." *British Journal of Industrial Relations*, vol. 47, no. 2, 406–28 at 422.

Momentum is gathering in favor of a higher minimum wage, and it is coming from the grass roots. Throughout the country, broad coalitions are coming together to raise State and local minimum wages, either through legislative action or ballot measure. On the first of the year, in fact, an increase went into effect in 13 different States. Twenty-two States and the District of Columbia all have passed a minimum wage higher than the Federal level—from Vermont to Colorado, from Connecticut to Alaska, from Massachusetts to Washington State.

Also, 24 States and the District of Columbia already have a higher cash wage for tipped workers than the Federal level. Another seven States require tipped employees receive the full State minimum wage. For example, California and Oregon, both with quite successful restaurant industries, give their tipped workers full State minimum wage.

The game has changed and the ground has shifted. A sense of urgency has begun to set in. Part of that is because workers are standing up for themselves. Fast food workers in particular have been speaking out and taking action, demanding that their hard work be rewarded with a fair wage. And their voices are resonating. More than three-quarters of the American people believe we should increase the minimum wage, according to a recent Gallup poll.

The President is doing everything he can under his authority to respond to that surge, making sure our Federal procurement process reflects that emerging consensus. Last month, he made good on his State of the Union promise to sign an Executive Order mandating that Federal contractors pay their federally funded employees working on new and replacement Federal service, construction, and concession contracts at least $10.10 an hour. As he put it: “If you cook our troops’ meals or wash their dishes, you shouldn’t have to live in poverty.”

The only thing left is for action to come from these halls. The Congress is lagging behind the States, behind public opinion, behind workers who want more opportunity, behind forward-looking business leaders who want to do well by doing good. Even the conservative party in Great Britain recently embraced a higher minimum wage across the Atlantic.

It is time for the Congress to lead on this urgent issue of economic security and fundamental fairness. It’s time for the Congress to say that yes, it will give America a raise.

Thanks to the grit and resilience of the American people, we’ve come a long way toward our goal of being an opportunity society, a place where anyone can make it if they try, a place where everyone has a fair shot at getting ahead.

I am very optimistic about the direction of our economy. We’ve gradually emerged from the worst economic crisis of our lifetimes, and now, according to BLS, the private sector has created more than 8.7 million jobs over the last 48 months. The manufacturing sector is resurgent. The housing market has rebounded. We’ve made strong investments in our citizens and their potential even as we’ve cut our deficits by more than half.

But too many Americans aren’t experiencing this recovery or sharing in this prosperity. They are working harder and harder but falling further and further behind. They are falling short of their dreams through no fault of their own. They are finding the rungs on the ladder of opportunity beyond their reach.

People who work full-time in the wealthiest nation on earth should not live in poverty. That is, in my view, a fundamental article of faith in our country. And yet, that’s exactly what our current law mandates, with a full-time minimum wage worker earning an annual income of $14,500 a year.

That’s not what a country built on opportunity does. That’s no way to honor the dignity of work, or to build an economy powered by a thriving middle class. When hard-working Americans are undervalued and underpaid, then the American social contract is being breached and we are not truly living up to our values.

But when hard work and responsibility are rewarded, when every American working full-time is able to provide for their family, it makes the whole Nation stronger. The Congress has the power to do that, by taking the long-overdue step of increasing the minimum wage.

The time has come to give the American people a raise. It’s a raise they need, a raise they’ve earned, a raise they deserve. The President and I stand ready to work with you in any way on this important matter. Thank you very much, and I look forward to taking your questions.

The CHAIRMAN. Thank you very much, Mr. Secretary.

We will do a round of 3-minute questions here and then if we have time, we will do some more.

Mr. Secretary, it has been said that $10.10 is too high. It is a 39 percent increase over the last one. They say that is too much.

I have a chart here that shows that going clear back to 1938, the original Fair Labor Standards Act when it set a minimum wage, that the average from 1939 to 2009 was 41 percent. The last increase was 41 percent, and in the 1990s we had two back-to-back increases that amounted to 48 percent. The time before that was 46 percent. The time before that 44.

So is this not sort of in line with what we have had in the past?

Secretary PEREZ. Absolutely, Mr. Chairman.

The CHAIRMAN. So it is not out of line.

I am not going to get into whether we even need a minimum wage or not. Some of my friends on this side believe there should not even be any minimum wage.

But again, as you pointed out in your testimony, a recent study from the Center for American Progress concluded that if our bill becomes law, it would mean as many as 3.8 million fewer people enrolled in the Supplemental Nutrition Assistance Program—that is food stamps—reducing taxpayer spending by $4.6 billion a year. Is that not what we are looking at, Mr. Secretary? We are either going to take it out of taxpayers' dollars and give TANF, SNAP, EITC—some people say we have to raise the Earned Income Tax Credit again. Well, that is taking revenues out. Or child care, development block grants, things like that. We either do it on a welfare side or we do it by increasing the wages that they make at work. Is that not sort of the balance that we are trying to look at there?

Secretary PEREZ. Yes, it is, Mr. Chairman. When I speak to low-wage workers, the most frequent thing I hear from them is I do not want to be on food stamps. I want to be self-sufficient. I met a person in Jersey City recently, works at the airport handling bags. The only raise he has gotten in the last 8 years was when the voters increased the minimum wage last November. I hear that time and time again. I want to be self-sufficient. I do not want to rely on food stamps but I have no choice.

And I was on a television program recently and the person who came on after me was a gentleman named Ron Unz from California, a conservative activist who is leading a ballot initiative in California to raise the minimum wage from $10 an hour to $12 an hour. And the principal point that he is making is that we are subsidizing the business model of many businesses, by the way, including bankers. A recent study showed that 30 percent of bank tellers are on some form of public assistance to the tune of $900 million a year. You saw the other study, $7 billion in the fast food industry. People on the conservative side of the aisle like Ron Unz think that does not make a lot of sense.

For me, I am about self-sufficiency and I am listening to the individuals that I meet who say I want to be able to feed my family and not have to rely on these programs. And I think we should help facilitate that by paying a fair wage because wages have been flat, even though productivity has been going up.

The CHAIRMAN. Thank you, Mr. Secretary.

My time is out.

Senator Alexander.

Senator ALEXANDER. Thanks, Mr. Chairman.

Mr. Secretary, welcome.

Secretary PEREZ. Good morning. Thank you for having me.

Senator ALEXANDER. Mr. Secretary, you said in your confirmation hearing the words "creating jobs" 22 times. The issue is jobs.

I only have one question which I will ask you in a moment, but before I get to that question, if the issue is jobs, then could we not come up with a better proposal, with all respect to my friend, the chairman, than one that the Congressional Budget Office said would cost 500,000 jobs? Could we not come up with a proposal to help low-income Americans better than a proposal that the Congressional Budget Office says would provide 80 percent of the benefits to workers who live in families above the poverty level, not below the poverty level? And could we not come up with a better proposal than one which would make it harder for the only group of people in America who can solve the jobs problem? Those are the job creators.

I would like to put in the record a statement of Laurie Palmer of Waterville, ME who owns four Burger King franchises with 140 employees who says this bill would raise her costs by more than $200,000 a year. She made $35,000 last year net income as an owner and it will cause her very likely to close her business.

[The prepared statement of Ms. Palmer may be found in additional material.]

Republicans believe there is a better way than this and we would like to offer those ideas. This is the third hearing on what I consider a stale, bankrupt, ineffective proposal. So why not allow us to have amendments? But my friend, the chairman, has been quoted as saying we do not have time for a markup to offer amendments. And he was quoted as saying there might be embarrassing amendments. What might those amendments be?

We could talk about the Earned Income Tax Credit which could be more effective.

We could talk about the bipartisan proposal to change the 30-hour work week definition in Obamacare to 40 hours. That would encourage full-time work for millions of Americans.

We could talk about my proposal and Senator Scott's to create a $2,100 scholarship for children of low-income families.

We could talk about Senator Scott's proposal passed by the House, the SKILLS Act.

We could talk about several pro-growth amendments, for which there would be bipartisan support such as the President's recommendation that we pass the Trade Promotion Act, such as building the Keystone Pipeline, which had 62 votes in the Senate, such as having a National Labor Relations Board that is more of an umpire than an advocate.

The only thing embarrassing about these amendments would be to vote against them. We are bound to be able to do better than come up with a proposal on jobs for low-income people than one that costs 500,000 jobs and gives most of the benefits, 80 percent, to workers who live in families above the poverty level.

So here is my question, Mr. Secretary. Senator Heller asked Janet Yellen, the President's Federal Reserve Board Chairman, her opinion of the Congressional Budget Office and its ability to study

the impact of the minimum wage on American workers and the economy. She said they are as qualified as anyone to evaluate that literature.

Do you agree with Chairman Yellen that the Congressional Budget Office is as qualified as anyone to make a judgment about the impact of the minimum wage on the American economy and the American worker?

Secretary PEREZ. Mr. Chairman, I look forward to talking to you about all of the points that you mentioned. The skills agenda is something I spend a lot of time on. The President has a proposal to enhance the EITC, which I think is a great proposal. It is not an either/or, EITC or minimum wage. The President has proposals to invest in our infrastructure which creates good jobs.

Senator ALEXANDER. That was not my question. All I need is a yes or no.

Secretary PEREZ. No. Actually your question had a lot of——

Senator ALEXANDER. I had one question. Do you agree with Chairman Yellen that the CBO is as qualified as anyone to issue an assessment of the impact of the minimum wage on the American worker?

Secretary PEREZ. Senator, I have a lot of respect for the CBO, as does the President and as does everyone else.

Senator ALEXANDER. My question is do you agree that they are as qualified as anyone——

The CHAIRMAN. Senator Alexander.

Senator ALEXANDER. I am entitled to an answer, am I not, Mr. Chairman?

The CHAIRMAN. We had a 3-minute time limit, and you came to the 3 minutes and then asked a question after you gave a speech. And I want to be respectful, but I want to also be respectful that the Secretary can answer as he sees fit. He does not have to answer——

Senator ALEXANDER. Is a Senator not entitled to an answer to a question?

The CHAIRMAN. The Secretary can answer it as he wants to answer it, not as you direct him to answer it. You cannot force him to say one thing or another. If he wants to answer that question, then he can answer that question.

Senator ALEXANDER. So a Senator is not entitled to a yes or no answer to a specific question?

The CHAIRMAN. The Senator is entitled to ask the question and the Secretary can give the answer as he sees fit.

Senator ALEXANDER. That is not much congressional oversight in my book.

The CHAIRMAN. Well, it is being respectful of people who want to respond in the way that they feel is best suited to answering the question.

Senator ALEXANDER. Then we might as well not ask questions if we cannot get answers, Mr. Chairman.

Secretary PEREZ. Senator, I am trying to answer the question if you would give me an opportunity to do so.

Senator ALEXANDER. I will be glad to as long as it ends up with a yes or a no.

Secretary PEREZ. It will be an honest and full answer to your question, sir. And again, it starts with I have great respect for the Congressional Budget Office, and their report on the minimum wage actually helps us in a number of ways to understand issues. For instance, the Congressional Budget Office indicates that 25 million people will benefit from an increase in the minimum wage. We believe it is 28. So we can agree that somewhere between 25 million and 30 million people are going to benefit from the minimum wage.

The Congressional Budget Office agrees that there are roughly 12 percent of people, our teenagers, who will benefit from the minimum wage. So we can put to rest once and for all this myth that raising the minimum wage only helps teenagers. I hear that time and time again. It is wrong. The average age of a minimum wage worker is 35 years old. And the Congressional Budget Office has again affirmed what we have been saying for some time, that the minimum wage is not simply a wage for teenagers.

The Congressional Budget Office has again confirmed that they believe that it is roughly a million people who will get lifted out of poverty. We believe it is 2 million. Others believe it is 4 million who get lifted out of poverty. So we have a conversation about 1 million to 5 million or 4.5 million people who get lifted out of poverty. We know that that is a lot of people.

There are 12 million other people in poverty who would benefit from an increase in the minimum wage. We understand that. So we can now agree that there are millions and millions of other people who may not be lifted out of poverty but would benefit from the minimum wage.

The Congressional Budget Office agrees that raising the minimum wage would have a stimulative effect because it puts money in people's pockets, and when people get money in their pockets, they spend it, and when they spend it, businesses have to hire more people.

The Congressional Budget Office has done a very helpful service by again affirming what Henry Ford knew 100 years ago when he doubled the wages of the workers on the assembly line, that when you put money in people's pockets, they spend it.

The Congressional Budget Office has indicated in their report, in terms of whether it would result in the reduction of jobs, that there is a range, and the range could go from no effect whatsoever to an effect of possibly a million jobs.

What is interesting about that, Senator, is to look at the experience of other States. Washington State is an interesting State, Mr. Chairman, because if in fact the hypothesis that the minimum wage reduces jobs were correct, then you would expect that Washington State, which has the highest minimum wage in the country, would have experienced job loss. In fact, the opposite has happened. And there was a story in Bloomberg the other day noting that the minimum wage—and the Washington experience so demonstrates and 600 other economists, including seven Nobel Laureates, have looked at this issue and concluded that raising the minimum wage has little or no impact on employment.

So I think the bulk of the evidence of economists that have actually studied this issue and done those surveys of towns where you

have a minimum wage raise in New Jersey and the same wage across the river in Pennsylvania, when they do those studies, they show that it has no impact. So we have a lot of evidence that demonstrates that in fact the experience of Washington State is the experience across America, which is that you can raise the minimum wage and not have a harmful impact on employment.

Senator ALEXANDER. Mr. Chairman, is that 6-minute answer to my 3-minute question a yes?

The CHAIRMAN. I noted that this whole exchange took 9 minutes, of which the Senator from Tennessee took 4 minutes and the Secretary took 5 minutes. Again, I adhered to the 3-minute question on mine. In fact, I cut mine short. And if we are going to go on this path, then we are going to be here this afternoon. We will be here this afternoon with Mr. Elmendorf.

Now, I have Senator Franken, Senator Isakson, Senator Casey, Senator Scott, Senator Roberts. So next would be Senator Franken.

STATEMENT OF SENATOR FRANKEN

Senator FRANKEN. Thank you, Chairman Harkin, for holding this hearing, for your leadership, and sponsoring the Minimum Wage Fairness Act, of which I am a proud cosponsor.

Last year, both houses of the Minnesota State legislature passed legislation to raise our State's minimum wage, and right now they are working to reconcile those two bills so that Minnesota can join the 21 States that have minimum wages higher than the current Federal minimum wage.

Minnesotans support raising the minimum wage because they believe, as the Secretary does and as the chairman does, that if you work full-time, you should be able to put food on the table and put a roof over your family's head. I think the Ranking Member does believe that as well.

Minnesotans do not mind having to work hard. On the contrary, Minnesotans are incredibly hard-working people. But what they do mind is if they are working full-time 52 weeks a year and they still do not see a way to get ahead to move up into the middle class or even to move out of poverty.

Businesses in Minnesota get it too. Last week I spoke with Danny Schwartzman, owner of Common Roots Cafe and Catering. Danny pays his employees a minimum of $11.00 per hour, plus benefits like paid time off and health insurance. Danny says—and this is a quote,

> "Over time other businesses will see what I have seen, that paying people more yields more for the bottom line. It is easier to recruit and retain people. Happier employees are more likely to provide better customer service. Lower turnover means dramatically lower training costs and better employee performance."

Danny understands that his business will do better if his workers are doing better.

Raising the minimum wage is about making sure that work pays. It is about the American dream. If you work hard and take responsibility, you can put a roof over your head and provide a good life for your children and help them get ready for the future.

Secretary Perez, thank you for your testimony. Thank you for trying to get out to Minnesota. We have had a couple cancellations. I know you want to talk about this and other things.

Now, in your testimony, you discuss the purchasing power of the minimum wage has been on a steady decline for decades and that if we had kept up with inflation from its peak in the 1960s, it would be $10.69 in today's dollars. Can you talk about indexing the minimum wage to inflation and how that would impact its effectiveness as a policy going forward?

Secretary PEREZ. I think indexing is a critical component, Senator Franken, of making sure that the purchasing power is not lost. I have spoken to a number of business owners who have indicated they want to see indexing because, as they plan each year, it is easier to plan when you know, OK, there is a 2-percent increase in the minimum wage next year or a 4-percent increase in the minimum wage. It gives them that certainty of moving forward.

So not only does it help address the erosion—we have seen a 90 percent increase in productivity since the early 1990s and we have seen a 3-percent increase in real wages. So workers have not shared in the benefits of productivity and prosperity, and that is why indexing is one critical element of this bill that will prevent that future erosion.

Senator FRANKEN. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Again, that is only 45 seconds over, but if we are going to give 3-minute speeches, then we are going to give up our questions.

Senator Isakson.

STATEMENT OF SENATOR ISAKSON

Senator ISAKSON. Thank you, Mr. Chairman.

Thank you, Secretary Perez.

Secretary PEREZ. Good morning, Senator.

Senator ISAKSON. I will be brief in my question if you will be brief in your answer because I have two questions I want to be sure and ask.

In your printed testimony, you say one of the core missions of the Department of Labor is to provide an opportunity for workers to build a nest egg and save for retirement.

When you were here for your confirmation hearing, we talked about the then-pending definition of "fiduciary" by the Department of Labor. You were questioned by Democrats and Republicans about your interpretation of that, and you promised—and I quote—that you would look into it and get back to us with an answer.

What have you done since then to examine the fiduciary rule and the previous position of the Department of Labor to change it so it does not limit the access to investment information or access to low-cost savings and retirement plans?

Secretary PEREZ. We slowed the process down considerably.

Senator ISAKSON. I noticed that but it has not stopped I know.

Secretary PEREZ. That is also correct, sir. We slowed the process down considerably so that we could listen to all the stakeholders. I spoke to a Republican Member of the House yesterday because he had some really good points to make on that. We are reaching

out to external stakeholders. We are in very frequent discussions with the SEC. My goal is to make sure that we have the benefit of everybody's input. And I will say to you, Senator, if anybody calls you and says I am trying to get a hold of the Department of Labor to talk about this and I am having trouble, please let me know because we have let it be known that we want to listen to everybody and that is a critical component of addressing this.

Senator ISAKSON. If you will do one thing for me. I, first, will acknowledge the lovely lady sitting behind you in the first row was at the American Benefits Council meeting with me about a week ago in Florida. So I know you are attending these meetings and engaging with people in the private sector.

But when you listen, listen less to bureaucrats and more to people who are actually out there doing it. I think that will really help in terms of framing that definition. And the American Benefits Council by way of example is one. I was glad to see your Department represented.

The second question is this. Labor unions appear to be having buyers remorse with regard to the Affordable Care Act. There was a printed study done by one of the bigger unions in the country that said that Obamacare and the Affordable Care Act is actually making income inequality worse for organized labor. Could you address that? Or do you believe that is true?

Secretary PEREZ. I have actually spoken to a number of labor unions who are making great use of the Affordable Care Act, and I will give you one very quick example. In Oregon, home health workers were able to get on the exchange, negotiate a more favorable rate for their workers, cover more workers, and still get a raise because they were able to take the savings from the lower health insurance premiums and share that with the employer. So workers got, I think, $1.50 raise. More people were covered and it was a win-win situation. So there are a number of examples like that that I have seen.

Senator ISAKSON. I would call your attention to the study released by a 250,000-member union just I think on Monday. Sixty-thousand of their members, culinary workers in Las Vegas whose take-home pay has gone down because of the effects and the cost of the coverage under the Affordable Care Act.

Thank you for your time.

Secretary PEREZ. Thank you, Senator.

The CHAIRMAN. Thank you, Senator. Thank you, Mr. Secretary, both for your succinctness.

Senator Scott.

STATEMENT OF SENATOR SCOTT

Senator SCOTT. Thank you, Mr. Chairman. I will try my best to give you a 2-minute and 30-second speech and then ask a 30-second question.

A couple points I think are interesting. We seem to be insinuating or assuming that employers need the permission of the Government to raise the minimum wages in their companies. This is a ridiculous concept that we seem to continue to discuss and reinforce with the notion of listening to employers say that we need a higher minimum wage when in fact they can just raise the min-

imum wage in their companies whenever they want to. I was an employer. I owned a company for the last 13 years before coming to Congress. And it is very simple to raise the minimum wage in your companies.

And when you think about the impact, the obvious impact, of raising the minimum wage, there are at least three and perhaps more.

One is that you are going to destroy jobs. We have all heard a couple of times the fact that between 500,000 and 900,000 jobs will be destroyed.

We also know that automation is perhaps one of the other impacts of raising the minimum wage. I remember when I was a kid working at a movie theater selling movie tickets. Today you now have kiosks that you buy your tickets from because when you price out of the economy the entry level jobs, the unintended consequences are obviously fewer of those jobs.

And finally, if you are paying $7.25 an hour to a person to make five widgets, you raise that to $10.10 an hour for the same five widgets, the cost of widgets increases, which then erodes the actual increase in the minimum wage.

But perhaps a more interesting part of that which causes me to think about what we are doing here today is the very title itself, "From Poverty to Opportunity" for working families. When we look at the numbers—I wish we were having a longer discussion about single parents who need a higher wage and we can give that higher wage through education and the SKILLS Act. But what we do notice is that only 4 percent—4 percent—of minimum wage workers are single parents working full-time. And then when we look at the numbers from the BLS, only 2 percent of folks working full-time make the minimum wage.

To reinforce what Senator Alexander said that 77 percent of minimum wage earners are above the poverty line living in middle class households, for us to have a specific conversation about how the minimum wage is going to increase opportunities while it destroys jobs seems to me to be a rabbit trail that we should not be a part of.

I would only ask you, Secretary Perez, why are we not spending more time talking about creating jobs when in fact we know statistically without question that raising the minimum wage, when you have 10.5 million Americans unemployed, when the unemployment rate for black teenagers is 38 percent, to eliminate nearly, on the high side, 900,000 jobs in this environment seems to me to be inconsistent with the reality that we are trying to create?

Secretary PEREZ. Senator, the President has put forth a very robust agenda of job creation that includes the passage of comprehensive immigration reform, investing in infrastructure, investing in skills. And an equally important part of opportunity is making sure that people are rewarded for work with a fair wage, and increasing the minimum wage is an important part of that quilt.

And I would note that the average age of a minimum wage worker, again, is 35. It is not all teenagers out there. It is people like the woman I met from Oakland who said I am supporting my two children on a minimum wage job. And in fact, a quarter of minimum wage workers are heading households and supporting fami-

lies. The average minimum wage worker earns half of his or her family's total income. If somebody is making $25,000, so they are just above the poverty line, with all due respect, I would hardly call that a middle-class existence. And there are so many people who are in those situations right now, and that is one of many reasons why we need to increase the minimum wage.

I will not speak for the CBO, but they did not conclude, as I read their report, that 500,000 to 900,000 jobs will be destroyed. They in fact said it is a range and the range includes zero. And I have noted the other studies that are voluminous demonstrating, as the State of Washington's experience was, that you can increase the minimum wage and have no adverse employment effects because you would put money in people's pockets, people spend it, and employers hire more people. There is an overwhelming evidence——

Senator SCOTT. Secretary Perez, I do not want to have Senator Harkin tell me what he told the previous Senator, Senator Alexander, about the amount of time that it took for us to get through this because your answer is longer than my question.

I would simply say this. Most of my numbers come from the Department of Labor, No. 1.

No. 2, I would say that you did not dispute the fact that ultimately, according to most experts, we are going to lose jobs when we raise——

Secretary PEREZ. I absolutely dispute that, Senator——

Senator SCOTT. And No. 2, I would suggest there is little doubt that——

Secretary PEREZ [continuing]. With all due respect.

Senator SCOTT. If you do not mind me finishing my comment, I would appreciate that.

The fact is without question that 3 percent of hourly workers—3 percent of hourly workers over the age of 25—make the minimum wage.

Thank you.

The CHAIRMAN. That was 5 minutes. Thank you.

OK, Senator Warren.

STATEMENT OF SENATOR WARREN

Senator WARREN. Thank you, Mr. Chairman.

Thank you for being here, Secretary Perez.

When we talk about poverty and the minimum wage, we often forget about what happens to tipped workers. For more than 20 years, the minimum wage for tipped workers has been frozen at $2.13. The National Employment Law Project concluded that inflation has eroded more than a third of the tipped minimum wage's purchasing power. The Economic Policy Institute has found that today the purchasing power of a tipped minimum wage worker is at an all-time low.

And in case anyone thinks a tipped minimum wage is not necessary because the 3.3 million Americans who work in tipped jobs will get by on tips, the reality, according to the Economic Policy Institute, is that these workers are twice as likely as other workers to be in poverty, with restaurant servers, the largest group of tipped workers, are three times more likely to be in poverty.

Forty-five percent of tipped workers are over the age of 30, and about 70 percent are women. One in three tipped minimum wage workers is a parent. These are the Americans who serve our meals, pour our drinks, staff our hotels, cut our hair, and wash our cars. They deserve better.

Chairman Harkin's legislation would address this problem by increasing tipped minimum wage up to 70 percent of the regular minimum wage. That is a modest change.

But, Secretary Perez, what I wanted to ask you about is based on the experiences of the seven States that do not treat tipped wage workers any differently—that is, they have the same minimum wage—what do you believe would be the impact of increasing the tipped minimum wage.

Secretary PEREZ. You are correct, Senator. Tipped workers have taken it on the chin, and they are all too frequently left on the cutting room floor at the end of negotiations on increases in the minimum wage.

Let me look at the example again. Let me bring us back to Washington. There are seven States where there is no tipped credit. So minimum wage tipped workers are making the same as every other worker. And I noted before Washington State. They have had for a long time—they voted in 1998 to raise their State minimum wage and link it to the cost of living so it would index, just like you are trying to do, Mr. Chairman. And in the 15 years that followed, the State's minimum wage climbed to $9.32. Meanwhile, job growth continued at an average of 0.8 percent annual pace, which was 0.3 percent above the national average. Payrolls at Washington's restaurants and bars, portrayed as vulnerable to higher wage costs, expanded by 21 percent. Poverty has trailed the U.S. level for at least 7 years. By the way, this is a Bloomberg article that I am quoting from. That has been the experience. This can be done.

California is another State that now has no tipped credit.

And what an employer in Washington told me in this context is that it is a level playing field, and when everybody has a level playing field, you can continue to thrive. And the evidence bears that out.

Senator WARREN. Thank you very much.

Thank you, Mr. Chairman. We need a level playing field and that includes our tipped workers.

The CHAIRMAN. Thank you, Senator Warren.

Senator Roberts.

STATEMENT OF SENATOR ROBERTS

Senator ROBERTS. Thank you, Mr. Chairman.

Mr. Secretary, this hearing is focused on raising the minimum wage. Your testimony talked about how through hard work and personal responsibility everyone should have the chance to succeed and create a better life for themselves. I could not agree more.

I am very concerned by the lack of context in statements like this. In order to receive a paycheck that will include a 39 percent raise, first, one would have to have a job, and yet I think this increase would cost jobs.

I am sure you are aware, after all the testimony here and the questions by my colleagues, the CBO estimate with regard to this mandated increase would cost 500,000 jobs.

The question is, is a policy that reduces small business jobs a way to benefit the country? The same office, CBO, who initially reported Obamacare, the Affordable Health Care Act, cost $1 trillion, now 5 years later that is $2 trillion. That will cost 2.5 million full-time jobs. Now we are talking about three million jobs lost. I really think we should be focusing on Senator Scott's bill and others to really create jobs and opportunity, not ordering a small business to pay an increased flat fee in addition to the higher premiums they have to pay because of either Obamacare or a mandated increase in the minimum wage.

I am also concerned about Obamacare reducing hours below 30 per week. In order to stay in business, we need to raise that to 40.

Now, this is not Oakland. This is a small community in Kansas. I had a town hall meeting. And I spoke to a small business owner, a lady, last night who spoke of this exact concern. She has 10 employees. She has crunched the numbers on both Obamacare and your proposal to increase the minimum wage. And she said, Senator Roberts, I will have to close my doors.

Now, you and I are in her small business. We are having a cup of coffee. And she says, "Mr. Secretary, I am going to have to close my doors—I have 10 employees—because of your increase in the minimum wage." What do you tell her?

Secretary PEREZ. I would tell her what I have heard from other small business owners, which is that when you pay a fair wage, when you treat your employees by paying them a fair wage, they become loyal. You become more efficient.

Senator ROBERTS. Wait a minute. You are saying that that small business owner in a small community in Kansas that I talked to last night who has been in business there for 30 years, has 10 employees—and you are saying she is not paying a fair wage?

Secretary PEREZ. No.

Senator ROBERTS. She is trying to keep the doors open.

Secretary PEREZ. And I very much appreciate that, which is why I have spent so much time talking to small business owners to hear their perspective. When I was a local-elected official, Senator, we debated a bill to increase—to have a smoking ban, and I heard——

Senator ROBERTS. I want to know what to tell her.

Secretary PEREZ. And I heard from people that they were going to close their doors if we had a smoking ban, and restaurants have thrived.

Senator ROBERTS. A smoking ban.

Secretary PEREZ. Because it will shut restaurants down.

Senator ROBERTS. We are not talking about smoking bans. I am over time. I did not get an answer. Thank you.

Secretary PEREZ. Yes, I did, sir. I tried to answer your question by noting——

Senator ROBERTS. No, you did not. You did not tell me what you would tell that lady. You talked about smoking bans.

Secretary PEREZ. No, sir.

Senator ROBERTS. Let us do not go any farther with this.

The CHAIRMAN. You know, I am not Darrell Issa. I am not going to cutoff anybody's mic at any time. But I do intend to move this hearing along, and I do intend to respect the witnesses who have come a long distance. We are running out of time because of the votes this morning, but we are going to make sure that we hear these witnesses who have come here. I will say right now, just so you people can plan, I have a person here from Iowa with three children. The church is taking care of her children while she came here to testify. She has a plane to catch this afternoon to go home to be with her children. I intend to have her at this witness table and to hear from her. I have another person who took a red-eye all the way from California just to be here for this hearing. I intend to hear from her too.

So as soon as the Secretary is done, I am calling that panel up, and we are hearing from that panel. And then we will call on Mr. Elmendorf.

Senator ALEXANDER. Mr. Chairman, if I may say, that is not our agreement. Our agreement was you would excuse Secretary Perez after 30 minutes and then you would call Mr. Elmendorf after 40 minutes so that he could be heard.

The CHAIRMAN. That was my plan, but everybody—I want to be respectful——

Senator ALEXANDER. That was our agreement. We agreed to move the hearing up 1 hour.

The CHAIRMAN. If everyone could ask 3-minute questions and be out of here, we would do that. But as you can see, the Senator himself took 9 minutes.

Senator ALEXANDER. I took 4 minutes.

The CHAIRMAN. You took four. He took five.

Senator ALEXANDER. He took five.

The CHAIRMAN. That is right.

Senator ALEXANDER. We had an agreement last night, which I agreed to, which you would excuse him after 30 minutes and bring Mr. Elmendorf up—I agree with you—so that those from Iowa could be heard this morning.

The CHAIRMAN. I hate to cut people off but I intend to hear the second panel. I am not going to be abusive. Mr. Elmendorf—I respect him, but he is nearby. He works in Washington. He has a good job and he can come back or he can be here later. We can hear from him after we hear this panel. But I am not going to abuse those people that came a great distance to be here.

Senator ALEXANDER. Mr. Chairman, why can you not do today what you said you would do yesterday, which is excuse the Secretary after 30 minutes and bring Mr. Elmendorf up and then we can hear those people from Iowa? We look forward to hearing them.

The CHAIRMAN. Because then I have to cut people off from asking the Secretary questions.

Senator ALEXANDER. That would have been true yesterday.

The CHAIRMAN. If we had had 3-minute questions and if people would abide by that, we could have done that.

All right. Mr. Secretary, we will excuse you. We will excuse you, Mr. Secretary. Thank you very much for your leadership. I appreciate it very much. And I do not abide by people badgering witnesses whether they are on our side or the other side.

OK. We will call Mr. Elmendorf, but I will tell you what. At exactly 10:10 or 10:15 Mr. Elmendorf will be excused regardless of how many questions we have to ask. Like I said, I do not want to be Darrell Issa and cut people off. But we have got a lot of hearings and I do not want to abuse the people who came a long distance to be here, Mr. Alexander. Agreement or no agreement.

Mr. Elmendorf, you are up. Mr. Elmendorf, welcome. Thank you for being here. Again, your statement will be part of the record in its entirety. I would ask if you could sum it up in 5 minutes.

STATEMENT OF DOUGLAS W. ELMENDORF, DIRECTOR, CONGRESSIONAL BUDGET OFFICE, WASHINGTON, DC

Mr. ELMENDORF. I will do that. Thank you very much.

Mr. Chairman, Ranking Member Alexander, to all the members of the committee, I appreciate the opportunity to present CBO's analysis of the effects of increasing the minimum wage. Our work on that analysis spanned several months and drew on dozens of studies from an extensive research literature, as well as a detailed examination ourselves of data from the Census Bureau's current population survey.

Increasing the minimum wage would have two principal effects on low-wage workers. Most of them would receive higher pay that would increase their family's income, and some of those families would see their income rise above the Federal poverty threshold. But some jobs for low-wage workers would probably be eliminated as well.

The magnitude of those effects would vary with the amount of the increase in the minimum wage. So CBO examined the effects of two options, a $9.00 option and a $10.10 option. We focused on the effects of the options in the second half of 2016 after they would be fully implemented.

In the $9.00 option we studied, the minimum wage would rise from the current $7.25 per hour to $9.00 per hour in two steps in 2015 and 2016. We estimate that this option would reduce employment by about 100,000 workers, or less than .1 percent. That estimate is quite uncertain, and the actual effect could be smaller or larger. In our assessment, there is about a two-thirds chance the effect would be between a very slight increase in employment and a reduction in employment to 200,000 workers.

Many more low-wage workers would see an increase in their earnings. Of those workers who will earn up to $9.00 per hour under current law, most, about 7.5 million according to our estimates, would have higher earnings. And some people who are earning more than $9.00 per hour would have higher earnings as well. The increased earnings for low-wage workers resulting from the higher minimum wage would total $9 billion we estimate.

However, those earnings would go not only to low-income families because many low-wage workers are not members of low-income families. By our estimates, about a fifth of that sum would accrue to families with income below the Federal poverty threshold, nearly half to families with income between one and three times the poverty threshold, and about a third to families earning more than three times the poverty threshold.

Moreover, the increased earnings for some workers will be accompanied by reductions in inflation-adjusted income for the people who became jobless, for business owners, and for consumers facing slightly higher prices. We estimate that income for families whose income would be below the poverty threshold under current law would increase on net by about a billion dollars, moving about 300,000 people on net above the poverty threshold.

The other option we studied would increase the minimum wage to $10.10 per hour in three steps in 2014, 2015, and 2016. After reaching $10.10 in 2016, the minimum wage would be adjusted annually for inflation. The $10.10 would have substantially larger effects on employment and income than the $9.00 option because many more workers would see their wages rise, because the change in their wages would be greater and, we expect, because employment would be more responsive to a minimum wage increase that was larger and was subsequently adjusted for inflation.

We estimate that in the second half of 2016, the $10.10 would reduce total employment by about 500,000 workers, or .3 percent. That estimate is also quite uncertain. In our assessment, there was about a two-thirds chance that the effect would be in the range between a very slight reduction in employment and reduction in employment of a million workers.

Once again, many more low-wage workers would see an increase in their earnings. Of those workers who will earn up to $10.10 under current law, most, about 16.5 million according to our estimates, would have higher earnings, and some people earning more than $10.10 would also have higher earnings.

The increased earnings for low-wage workers resulting from the higher minimum wage would total $31 billion by our estimate. Again, about a fifth of that sum would accrue to families with income below the poverty threshold, about half to families with income between one and three times the poverty threshold, and almost a third to families with income more than three times the poverty threshold. We estimate that income for families whose income will be below the poverty threshold under current law would increase on net by about $5 billion, moving about 900,000 people on net above the poverty threshold.

Thank you. I am happy to answer your questions.

[The prepared statement of Mr. Elmendorf follows:]

PREPARED STATEMENT OF DOUGLAS W. ELMENDORF *

Chairman Harkin, Ranking Member Alexander, and members of the committee, thank you for inviting me to testify on the Congressional Budget Office's (CBO's) recent report *The Effects of a Minimum-Wage Increase on Employment and Family Income*. My statement today reprises that report.

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*Note: This testimony reprises a recent Congressional Budget Office (CBO) report about the effects of increasing the minimum wage. However, that report includes an appendix describing the basis of CBO's findings that is not included in this testimony. See Congressional Budget Office, *The Effects of a Minimum-Wage Increase on Employment and Family Income (February 2014), www.cbo.gov/publication/44995*.

Estimates of the effect on employment of the options to increase the minimum wage are rounded to the nearest 100,000 workers.

Numbers in the text, tables, and figures may not add up to totals because of rounding.

SUMMARY

Increasing the minimum wage would have two principal effects on low-wage workers. Most of them would receive higher pay that would increase their family's income, and some of those families would see their income rise above the Federal poverty threshold. But some jobs for low-wage workers would probably be eliminated, the income of most workers who became jobless would fall substantially, and the share of low-wage workers who were employed would probably fall slightly.

What Options for Increasing the Minimum Wage Did CBO Examine?

For this analysis, the Congressional Budget Office examined the effects on employment and family income of two options for increasing the Federal minimum wage:

- A "$10.10 option" would increase the Federal minimum wage from its current rate of $7.25 per hour to $10.10 per hour in three steps—in 2014, 2015, and 2016. After reaching $10.10 in 2016, the minimum wage would be adjusted annually for inflation as measured by the consumer price index.
- A "$9.00 option" would raise the Federal minimum wage from $7.25 per hour to $9.00 per hour in two steps—in 2015 and 2016. After reaching $9.00 in 2016, the minimum wage would not be subsequently adjusted for inflation.

What Effects Would Those Options Have?

The $10.10 option would have substantially larger effects on employment and income than the $9.00 option would—because more workers would see their wages rise; the change in their wages would be greater; and, CBO expects, employment would be more responsive to a minimum-wage increase that was larger and was subsequently adjusted for inflation. The net effect of either option on the Federal budget would probably be small.

Effects of the $10.10 Option on Employment and Income. Once fully implemented in the second half of 2016, the $10.10 option would reduce total employment by about 500,000 workers, or 0.3 percent, CBO projects. As with any such estimates, however, the actual losses could be smaller or larger; in CBO's assessment, there is about a two-thirds chance that the effect would be in the range between a very slight reduction in employment and a reduction in employment of 1.0 million workers (see Table 1).

Many more low-wage workers would see an increase in their earnings. Of those workers who will earn up to $10.10 under current law, most—about 16.5 million, according to CBO's estimates—would have higher earnings during an average week in the second half of 2016 if the $10.10 option was implemented.[1] Some of the people earning slightly more than $10.10 would also have higher earnings under that option, for reasons discussed below. Further, a few higher-wage workers would owe their jobs and increased earnings to the heightened demand for goods and services that would result from the minimum-wage increase.

The increased earnings for low-wage workers resulting from the higher minimum wage would total $31 billion, by CBO's estimate.[2] However, those earnings would not go only to low-income families, because many low-wage workers are not members of low-income families. Just 19 percent of the $31 billion would accrue to families with earnings below the poverty threshold, whereas 29 percent would accrue to families earning more than three times the poverty threshold, CBO estimates.[3]

Moreover, the increased earnings for some workers would be accompanied by reductions in real (inflation-adjusted) income for the people who became jobless because of the minimum-wage increase, for business owners, and for consumers facing higher prices. CBO examined family income overall and for various income groups, reaching the following conclusions:

- Once the increases and decreases in income for all workers are taken into account, overall real income would rise by $2 billion.
- Real income would increase, on net, by $5 billion for families whose income will be below the poverty threshold under current law, boosting their average family income by about 3 percent and moving about 900,000 people, on net, above the poverty threshold (out of the roughly 45 million people who are projected to be below that threshold under current law).

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[1] In addition to the people who became jobless, some workers earning less than $10.10 per hour and not covered by minimum-wage laws would also not have increased earnings.

[2] All effects on income are reported for the second half of 2016; annualized (that is, multiplied by two); and presented in 2013 dollars.

[3] Poverty thresholds vary with family size and composition; CBO projects that in 2016, the poverty threshold (in 2013 dollars) will be about $18,700 for a family of three and $24,100 for a family of four.

Table 1.—Estimated Effects on Employment, Income, and Poverty of an Increase in the Federal Minimum Wage, Second Half of 2016

	$10.10 Option [1]	$9.00 Option [2]
Change in Employment:		
Central estimate [3]	−500,000 workers	−100,000 workers
Likely range [4]	Very slight decrease to −1.0 million workers.	Very slight increase to −200,000 workers.
Number of Workers With Hourly Wages Less Than the Proposed:		
Minimum Whose Earnings Would Increase in an Average Week [5].	16.5 million	7.6 million
Change in Real Income (2013 dollars, annualized) [6]:		
Families whose income is below the poverty threshold	$5 billion	$1 billion
Families whose income is between one and three times the poverty threshold.	$12 billion	$3 billion
Families whose income is between three and six times the poverty threshold.	$2 billion	$1 billion
Families whose income is six times the poverty threshold or more.	−$17 billion	−$4 billion
Change in the Number of People Below the Poverty Threshold [7]	−900,000	−300,000

Source: Congressional Budget Office based on monthly and annual data from the Census Bureau's Current Population Survey.

[1] The minimum wage would rise (in three steps, starting in 2014) to $10.10 by July 1, 2016, and then be indexed to inflation.

[2] The minimum wage would rise (in two steps, starting in 2015) to $9.00 by July 1, 2016, and would not be subsequently indexed to inflation.

[3] Uses values at or near the midpoints of estimated ranges for key inputs.

[4] In CBO's assessment, there is a two-thirds chance that the actual effect would be within this range.

[5] Some of the people with hourly wages slightly above the proposed minimum wage would also have increased earnings under the options.

[6] Changes in real (inflation-adjusted) income include increases in earnings for workers who would receive a higher wage, decreases in earnings for workers who would be jobless because of the minimum-wage increase, losses in income for business owners, decreases in income because of increases in prices, and increases in income generated by higher demand for goods and services.

[7] Calculated using before-tax family cash income. Poverty thresholds vary with family size and composition. The definitions of income and of poverty thresholds are those used to determine the official poverty rate and are as defined by the Census Bureau. CBO projects that in 2016, the poverty threshold (in 2013 dollars) will be about $18,700 for a family of three and $24,100 for a family of four.

- Families whose income would have been between one and three times the poverty threshold would receive, on net, $12 billion in additional real income. About $2 billion, on net, would go to families whose income would have been between three and six times the poverty threshold.
- Real income would decrease, on net, by $17 billion for families whose income would otherwise have been six times the poverty threshold or more, lowering their average family income by 0.4 percent.

Effects of the $9.00 Option on Employment and Income. The $9.00 option would reduce employment by about 100,000 workers, or by less than 0.1 percent, CBO projects. There is about a two-thirds chance that the effect would be in the range between a very slight increase in employment and a reduction in employment of 200,000 workers, in CBO's assessment. Roughly 7.6 million workers who will earn up to $9.00 per hour under current law would have higher earnings during an average week in the second half of 2016 if this option was implemented, CBO estimates, and some people earning more than $9.00 would have higher earnings as well.

The increased earnings for low-wage workers resulting from the higher minimum wage would total $9 billion; 22 percent of that sum would accrue to families with income below the poverty threshold, whereas 33 percent would accrue to families earning more than three times the poverty threshold, CBO estimates.

For family income overall and for various income groups, CBO estimates the following:

- Once the increases and decreases in income for all workers are taken into account, overall real income would rise by $1 billion.
- Real income would increase, on net, by about $1 billion for families whose income will be below the poverty threshold under current law, boosting their average family income by about 1 percent and moving about 300,000 people, on net, above the poverty threshold.
- Families whose income would have been between one and three times the poverty threshold would receive, on net, $3 billion in additional real income. About $1 billion, on net, would go to families whose income would have been between three and six times the poverty threshold.
- Real income would decrease, on net, by $4 billion for families whose income would otherwise have been six times the poverty threshold or more, lowering their average family income by about 0.1 percent.

Effects of a Minimum-Wage Increase on the Federal Budget. In addition to affecting employment and family income, increasing the Federal minimum wage would affect the Federal budget directly by increasing the wages that the Federal Government paid to a small number of hourly employees and indirectly by boosting the prices of some goods and services purchased by the government. Most of those costs would need to be covered by discretionary appropriations, which are capped through 2021 under current law.

Federal spending and taxes would also be indirectly affected by the increases in real income for some people and the reduction in real income for others. As a group, workers with increased earnings would pay more in taxes and receive less in Federal benefits of certain types than they would have otherwise. However, people who became jobless because of the minimum-wage increase, business owners, and consumers facing higher prices would see a reduction in real income and would collectively pay less in taxes and receive more in Federal benefits than they would have otherwise. CBO concludes that the net effect on the Federal budget of raising the minimum wage would probably be a small decrease in budget deficits for several years but a small increase in budget deficits thereafter. It is unclear whether the effect for the coming decade as a whole would be a small increase or a small decrease in budget deficits.

THE CURRENT FEDERAL MINIMUM WAGE

The Federal minimum wage was established by the Fair Labor Standards Act of 1938 (FLSA) and currently applies to about two-thirds of workers in the public and private sectors. Workers whose compensation depends heavily on tips (such as waiters and bartenders) are subject to a special arrangement: The regular minimum wage applies to their compensation including tips, and a lower cash minimum wage applies to their compensation excluding tips. The FLSA also has exceptions for workers and employers of certain types, including a provision permitting employers to pay teenage workers $4.25 per hour during their first 90 days of employment.[4]

The nominal Federal minimum wage has risen over the years. The most recent changes, which took effect in July 2007, raised the minimum wage in three steps from $5.15 per hour (in nominal dollars) to $7.25 in July 2009, where it stands today.[5] However, the real value of the minimum wage has both risen and fallen, as the nominal increases have subsequently been eroded by inflation (see Figure 1).[6] That erosion was most pronounced between January 1981 and April 1990 and between September 1997 and July 2007—each a period of nearly 10 years during which the nominal value of the minimum wage was unchanged.

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[4] For details about the FLSA's minimum-wage requirements, see Fair Labor Standards Act of 1938, as amended, 29 U.S.C. § 201 et seq. (2012). See also Department of Labor, "Minimum Wage and Overtime Pay" (accessed January 8, 2014), *www.dol.gov/compliance/guide/minwage.htm*.

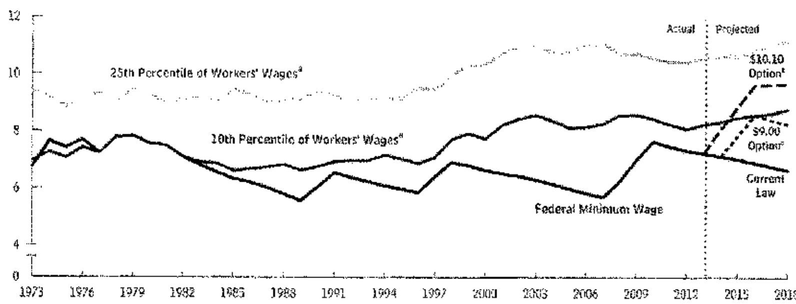
[5] After CBO completed its analysis of increasing the Federal minimum wage, the President issued an Executive order, entitled "Minimum Wage for Contractors," that established a minimum wage of $10.10 per hour for certain individuals working under new contracts with the Federal Government, beginning on January 1, 2015. That order slightly reduces the number of workers who would be affected by increasing the Federal minimum wage and thus slightly reduces the estimated effects presented in this analysis.

[6] Adjusted for inflation, the Federal minimum wage reached its historical peak in 1968. In that year, its value in 1968 dollars was $1.60, which is equal to $8.41 in 2013 dollars if the conversion is done with the price index for personal consumption expenditures published by the Bureau of Economic Analysis. CBO generally uses that index when adjusting labor market data for inflation, considering it a more accurate measure than a common alternative—the consumer price index for all urban consumers (CPI–U), which is published by the Bureau of Labor Statistics (BLS). According to many analysts, the CPI–U overstates increases in the cost of living because it does not fully account for the fact that consumers generally adjust their spending patterns as some prices change relative to other prices and because of a statistical bias related to the limited amount of price data that BLS can collect. The value of $1.60 in 1968 dollars is equal to $10.71 in 2013 dollars if the conversion is done with the CPI–U.

Figure 1.

Workers' Hourly Wages and the Federal Minimum Wage, 1973 to 2018

(2013 dollars per hour)



Source: Congressional Budget Office based on monthly data from the Census Bureau's Current Population Survey and on data from the Department of Labor.

Note: CBO converted wages to 2013 dollars using the price index for personal consumption expenditures published by the Bureau of Economic Analysis. For example, nominal values in 2016 of $10.10 and $9.00 were adjusted downward to account for projected inflation between 2013 and 2016. After 2016, the minimum wage under the $10.10 option would increase slightly in the 2013 dollars shown in this figure because it would be indexed to the consumer price index, which would grow faster than the price index for personal consumption expenditures, CBO projects. Values for the federal minimum wage—both actual values and projected values under the $10.10 option, the $9.00 option, and current law—are as of July 1 of each year.

a. The hourly wage of workers not paid hourly was estimated as their weekly earnings divided by their usual hours worked per week. Values after those for 2013 are projected under current law.

b. The minimum wage would rise (in three steps, starting in 2014) to $10.10 by July 1, 2016, and then be indexed to inflation.

c. The minimum wage would rise (in two steps, starting in 2015) to $9.00 by July 1, 2016, and would not be subsequently indexed to inflation.

Many States and localities have minimum-wage laws that apply, along with Federal law, to employers within their jurisdiction. In recent years, States and localities have been particularly active in boosting their minimum wage; as of January 2014, 21 States and the District of Columbia had a minimum wage that was higher than the Federal one. In 11 of those States, the minimum wage is adjusted automatically each year with inflation, and in four more, plus the District of Columbia, future increases have already been legislated. In California, for example, the minimum wage is scheduled to increase from $8.00 to $9.00 in July 2014 and to $10.00 in January 2016. Some localities also have minimum wages that are higher than the applicable State or Federal minimum wage; in San Francisco, for instance, the minimum wage is $10.74 per hour. Another 20 States have minimum wages equal to the Federal minimum wage (and linked to it, in some cases). In some of those States, the State laws apply to some workers and employers who are not covered by the FLSA. At the moment, about half of all workers in the United States live in States where the applicable minimum wage is more than $7.25 per hour. The applicable minimum wage in those States ranges from $7.40 to $9.32 per hour (see Figure 2).

Minimum-wage workers are sometimes thought of primarily as teenagers from nonpoor families who are working part-time, but that is not the case now. Of the 5.5 million workers who earned within 25 cents of the minimum wage in 2013, three-quarters were at least 20 years old and two-fifths worked full-time. Their median family income was about $30,000, CBO estimates. (Some of the family incomes within that group of workers were substantially higher or lower than that amount, in part because the number of working adults in their families varied.)

TWO OPTIONS FOR INCREASING THE FEDERAL MINIMUM WAGE

Lawmakers have proposed various options for increasing the Federal minimum wage, including several that would increase it to $10.10 per hour and subsequently index it for inflation.[7] CBO has assessed the impact of such an option, as well as the impact of a smaller increase that would boost the minimum wage to $9.00 per hour and would not link future increases to inflation. The options that CBO ana-

[7] See, for example, S. 460, the Fair Minimum Wage Act of 2013; S. 1737, the Minimum Wage Fairness Act; and H.R. 3939, the Invest in United States Act of 2014. Another proposal (H.R. 3746, the Fair Minimum Wage Act of 2013) would increase the minimum wage to $11.00 and subsequently index it for inflation.

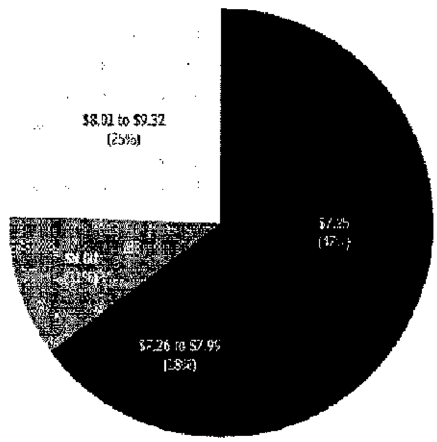
lyzed would not change other provisions of the FLSA, such as the one that applies to wages for teenage workers during their first 90 days of employment.

A $10.10 Option

CBO examined an option that would increase the Federal minimum wage from $7.25 per hour to $8.20 on July 1, 2014; to $9.15 1 year after that; and to $10.10 after another year. The increase in the minimum wage between 2014 and 2016 under this option would be about 40 percent, roughly the same percentage as the total increase from 2007 to 2009 but larger than several earlier increases. Each year after that, the minimum wage would rise with the consumer price index.[8]

Figure 2.

Shares of All Workers, by States' Applicable Minimum Wage, 2014



Source: Congressional Budget Office based on monthly data from the Census Bureau's Current Population Survey and on data from the Department of Labor.

Note: As of January 1, 2014, 21 states and the District of Columbia had a minimum wage above the federal minimum wage. The highest was $9.32 in the state of Washington.

In addition, this option would raise the minimum cash wage for tipped workers from $2.13 per hour to $4.90 in three steps timed to coincide with the changes in the minimum wage. Then, starting in 2017, the minimum cash wage for tipped workers would rise by 95 cents each year until it reached 70 percent of the minimum wage (which would occur in 2019, by CBO's estimate); in subsequent years, it would be tied to inflation.

A $9.00 Option

CBO also examined a smaller change that would increase the Federal minimum wage from $7.25 per hour to $8.10 on July 1, 2015, and to $9.00 on July 1, 2016. The minimum cash wage for tipped workers would increase when the minimum wage increased, and by the same percentage. The increase in the minimum wage would start 1 year later than it would under the $10.10 option. Like previous minimum-wage increases, this one would not be indexed to subsequent inflation. This $9.00 option is more similar than the $10.10 option to minimum-wage increases studied in the economics literature in a number of respects: the size of the increase, the portion of the workforce that it would affect, and the fact that its real value would be eroded over time.

[8] The $10.10 option is based on the provisions of S. 460, the Fair Minimum Wage Act of 2013. (The FLSA and S. 460 also apply to Puerto Rico and certain other U.S. territories, but because of limitations in available data, CBO's analysis is limited to the effects of minimum-wage increases on employment and family income in the 50 States and the District of Columbia.)

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HOW INCREASES IN THE MINIMUM WAGE AFFECT EMPLOYMENT AND FAMILY INCOME

In general, increases in the minimum wage probably reduce employment for some low-wage workers. At the same time, however, they increase family income for many more low-wage workers.

Employment

According to conventional economic analysis, increasing the minimum wage reduces employment in two ways. First, higher wages increase the cost to employers of producing goods and services. The employers pass some of those increased costs on to consumers in the form of higher prices, and those higher prices, in turn, lead the consumers to purchase fewer of the goods and services. The employers consequently produce fewer goods and services, so they hire fewer workers. That is known as a scale effect, and it reduces employment among both low-wage workers and higher-wage workers.

Second, a minimum-wage increase raises the cost of low-wage workers relative to other inputs that employers use to produce goods and services, such as machines, technology, and more productive higher-wage workers. Some employers respond by reducing their use of low-wage workers and shifting toward those other inputs. That is known as a substitution effect, and it reduces employment among low-wage workers but increases it among higher-wage workers.

However, conventional economic analysis might not apply in certain circumstances. For example, when a firm is hiring more workers and needs to boost pay for existing workers doing the same work—to match what it needs to pay to recruit the new workers—hiring a new worker costs the company not only that new worker's wages but also the additional wages paid to retain other workers. Under those circumstances, which arise more often when finding a new job is time-consuming and costly for workers, increasing the minimum wage means that businesses have to pay the existing workers more, whether or not a new employee was hired; as a result, it lowers the additional cost of hiring a new employee, leading to increased employment. There is a wide range of views among economists about the merits of the conventional analysis and of this alternative.

The low-wage workers whose wages are affected by increases in the minimum wage include not only those workers who would otherwise have earned less than the minimum but also, in some cases, workers who would have earned slightly more than the minimum. After a minimum-wage increase, some employers try to preserve differentials in pay that existed before—for example, so that supervisors continue to be paid more than the people they supervise—by raising the wages of people who previously earned a little more than the new minimum. Also, some wages determined by collective bargaining agreements are tied to the Federal minimum wage and could therefore increase. As a result, an increase in the minimum wage causes some workers who would otherwise have earned slightly more than the new minimum wage to become jobless, for the same reasons that lower-wage workers do; at the same time, some firms hire more of those workers as substitutes for the workers whose wages were required to be increased.

The change in employment of low-wage workers caused by a minimum-wage increase differs substantially from firm to firm. Employment falls more at firms whose customers are very sensitive to price increases, because demand for their products or services declines more as prices rise, so those firms cut production more than other firms do. Employment also falls more at firms that can readily substitute other inputs for low-wage workers and at firms where low-wage workers constitute a large fraction of input costs. However, when low-wage workers have fewer employment alternatives overall, employment can fall less at firms that offset some of the increased costs with higher productivity from employees' working harder to keep their better-paying jobs and with the lower cost of filling vacant positions that results from higher wages' attracting more applicants and reducing turnover. Some firms, particularly those that do not employ many low-wage workers but that compete with firms that do, might see demand rise for their goods and services as their competitors' costs rise; such firms would tend to hire more low-wage workers as a result.

The change in employment of low-wage workers also differs over time. At first, when the minimum wage rises, some firms employ fewer low-wage workers, while other firms do not; the reduced employment is concentrated in businesses and industries where higher prices result in larger reductions in demand. Over a longer timeframe, however, more firms replace low-wage workers with inputs that are relatively less expensive, such as more productive higher-wage workers. Thus, the percentage reduction in employment of low-wage workers is generally greater in the long term than in the short term, in CBO's assessment. (However, the total reduc-

tion in employment might be smaller in the long term; that total depends not only on the percentage reduction in employment of low-wage workers but also on the number of such workers, which could decline over time if wage growth for low-wage workers exceeded any increase in the minimum wage, all else being equal.)

Employers might respond to an increase in the minimum wage in ways other than boosting prices or substituting other inputs for low-wage workers. For example, they might partly offset a minimum-wage increase by reducing other costs, including workers' fringe benefits (such as health insurance or pensions) and job perks (such as free meals). As a result, a higher minimum wage might increase total compensation (which includes benefits and perks) less than it increased cash wages alone. That, in turn, would give employers a smaller incentive to reduce their employment of low-wage workers. However, such benefit reductions would probably be modest, in part because low-wage workers generally receive few benefits related to pensions or health insurance. In addition, tax rules specify that employers who reduce low-wage workers' nonwage benefits can face unfavorable tax treatment for higher-wage workers' nonwage benefits. Employers can also partly offset higher wages for low-wage workers by reducing either formal training or informal mentoring and coaching. The evidence on how much employers reduce benefits, training, or other costs is mixed.

An increase in the minimum wage also affects the employment of low-wage workers in the short term through changes in the economywide demand for goods and services. A higher minimum wage shifts income from higher-wage consumers and business owners to low-wage workers. Because those low-wage workers tend to spend a larger fraction of their earnings, some firms see increased demand for their goods and services, boosting the employment of low-wage workers and higher-wage workers alike. That effect is larger when the economy is weaker, and it is larger in regions of the country where the economy is weaker.

Low-wage workers are not the only ones whose employment can be affected by a minimum-wage increase; the employment of higher-wage workers can be affected as well, in several ways. Firms that cut back on production tend to reduce the number of both higher-wage workers and low-wage workers. But once a minimum-wage increase makes higher-wage workers relatively less expensive, firms sometimes hire more of them to replace a larger number of less productive low-wage workers. Another factor affecting higher-wage workers is the increase in the economywide demand for goods and services. All in all, a higher minimum wage tends to increase the employment of higher-wage workers slightly, according to CBO's analysis.

Family Income

For most families with low-wage workers, a higher minimum wage boosts family income, because of the increase in earnings that many of those workers (including those whose wages were slightly above the new minimum) receive. A much smaller number of low-wage workers become jobless and therefore experience a decline in earnings because of the higher minimum wage.

For families with low-wage workers, the effect of a higher minimum wage depends on how many such workers are in a family, whether those workers become jobless (and, if so, for how long), and whether there are other changes in family income. For instance, the decline in income from losing a job can be offset in part by increases in nonlabor income, such as unemployment compensation, or by increases in the work of other family members.

For business owners, family income (including income for shareholders) falls to the extent that firms' profits are reduced. In addition, real family income for many people tends to fall a bit, because the increase in prices of goods and services reduces families' purchasing power.

The effects on total national income of an increase in the minimum wage differ in the long term and in the short term. In the long term, the key determinant of the Nation's output and income is the size and quality of the workforce, the stock of productive capital (such as factories and computers), and the efficiency with which workers and capital are used to produce goods and services (known as total factor productivity). Raising the minimum wage probably reduces employment, in CBO's assessment. In the long term, that reduction in the workforce lowers the Nation's output and income a little, which means that the income losses of some people are slightly larger than the income gains of others. In the short term, by contrast, the Nation's output and income can deviate from the amounts that would typically arise from a given workforce, capital stock, and productivity in response to changes in the economywide demand for goods and services. Raising the minimum wage increases that demand, in CBO's assessment, because the families that experience increases in income tend to raise their consumption more than the families that experience decreases in income—who tend to reduce their consumption. In the short

term, that increase in demand raises the Nation's output and income slightly, which means that the income losses of some people are slightly smaller than the income gains of others.

CBO'S FINDINGS ABOUT EMPLOYMENT AND FAMILY INCOME

CBO estimated the effects on employment and family income of both the $10.10 option and the $9.00 option for raising the Federal minimum wage.[9] CBO's estimates are for the second half of 2016 because that would be the point at which the minimum wage reached $10.10 under the first option and $9.00 under the second. In either case, the increase in the minimum wage would have two principal effects on low-wage workers: The large majority would have higher wages and family income, but a much smaller group would be jobless and have much lower family income. Once the other changes in income were taken into account, families whose income would be below six times the poverty threshold under current law would see a small increase in income, on net, and families whose income would be higher under current law would see reductions in income, on net. In addition, in either case, higher-wage workers would see a small increase in the number of jobs.

Increases in the minimum wage would raise the wages not only for many workers who would otherwise have earned less than the new minimum but also for some workers who would otherwise have earned slightly more than the new minimum, as discussed above. CBO's analysis focused on workers who are projected to earn less than $11.50 per hour in 2016 under current law (who, in this analysis, are generally referred to as low-wage workers). People with certain characteristics are more likely to be in that group and are therefore more likely to be affected by increases in the minimum wage like those that CBO examined. For example, in 2016, 88 percent of the people earning such wages will be at least 20 years old, 56 percent will be female, and 91 percent will not have attained a bachelor's degree, CBO estimates (see Table 2).

Effects of the Options on Employment

According to CBO's central estimate, implementing the $10.10 option would reduce employment by roughly 500,000 workers in the second half of 2016, relative to what would happen under current law.[10] That decrease would be the net result of two effects: a slightly larger decrease in jobs for low-wage workers (because of their higher cost) and an increase of a few tens of thousands of jobs for other workers (because of greater demand for goods and services).[11] By CBO's estimate, about 1½ percent of the 33 million workers who otherwise would have earned less than $11.50 per hour would be jobless—either because they lost a job or because they could not find a job—as a result of the increase in the minimum wage.

Table 2.—Projected Characteristics of Low-Wage Workers, Second Half of 2016

Characteristic	Percentage of all workers with characteristic who will be low-wage	Percentage of low-wage workers with characteristic
Age:		
16 to 19	87	12
20 and older	22	88
All	24	100
Sex:		
Female	28	56

[9] For an estimate of the effect on employment of a previous proposal to increase the minimum wage, see Congressional Budget Office, private-sector mandate statement for S. 277, the Fair Minimum Wage Act of 2001 (May 9, 2001), *www.cbo.gov/ publication/13043*.

[10] A central estimate is one that uses values at or near the midpoints of estimated ranges for key inputs.

[11] In this analysis, phrases referring to changes in the number of jobs are used interchangeably with phrases referring to changes in employment. Technically, however, if a low-wage worker holds multiple jobs and loses one of them, that would represent a reduction of one job but no change in employment (because the worker would remain employed). About 5 percent of low-wage workers will hold more than one job under current law, CBO projects. Therefore, for any given reduction in employment, the reduction in the number of jobs will be slightly larger.

Table 2.—Projected Characteristics of Low-Wage Workers, Second Half of 2016—Continued

Characteristic	Percentage of all workers with characteristic who will be low-wage	Percentage of low-wage workers with characteristic
Male	21	44
All	24	100
Educational Attainment:		
Less than high school	58	20
High school graduate or some college	30	70
Bachelor's degree	7	10
All	24	100
Hours Worked per Week:		
Fewer than 35	58	47
35 or more	16	53
All	24	100
Number of Employees in Firm:		
Fewer than 50	30	48
50 or more	19	52
All	24	100

Source: Congressional Budget Office based on monthly and annual data from the Census Bureau's Current Population Survey.
Note: Low-wage workers are people who are projected, under current law in the second half of 2016, to be paid less than $11.50 per hour.

Those job losses among low-wage workers would be concentrated among people who are projected to earn less than $10.10 an hour under current law. Some workers who would otherwise have earned between $10.10 and $11.50 per hour would also see an increase in their wages, which would tend to reduce their employment as well, CBO estimates. However, some firms might hire more of those workers as substitutes for the lower-paid workers whose wages had been increased. Those two factors would probably be roughly offsetting, CBO anticipates, so the number of such workers who were employed would probably not change significantly.

The overall reduction in employment could be smaller or larger than CBO's central estimate. In CBO's assessment, there is about a two-thirds chance that the effect of the $10.10 option would be in the range between a very slight decrease in employment and a decrease of 1.0 million workers; thus, there is a one-third chance that the effect would be either above or below that range. The most important factors contributing to the width of the range are uncertainty about the growth of wages over the next 3 years (which influences the number of workers who would be affected by the minimum-wage increase, as well as the extent to which the increase would raise their wages) and uncertainty about the responsiveness of employment to an increase in wages. For example, if wage growth under current law was slower than CBO projects, implementing the increase would result in more people with increased wages and a greater reduction in employment than CBO's central estimate suggests.

Under the $9.00 option, employment would decline by about 100,000 workers in the second half of 2016, relative to what it would be under current law, according to CBO's central estimate. That estimate is much smaller than the central estimate for the $10.10 option for three reasons: Fewer workers would be affected; the change in their wages would be smaller; and four aspects of the $9.00 option would make employment in 2016 less responsive to a minimum-wage increase, CBO expects.[12] The first of those four aspects is that the $9.00 option is not indexed to inflation, so some employers would probably refrain from reducing employment, knowing that inflation would erode the cost of paying higher wages. Second, under the $9.00 option, the second half of 2016 arrives 1 year after the initial increase in the minimum wage—rather than 2 years, as under the $10.10 option—and employers would be less likely to reduce employment soon after an increase in the minimum wage than they would be over a longer period. Third, because the cost of paying higher wages

[12] Under the $9.00 option, the central estimate of the responsiveness of employment to a change in the applicable minimum wage is −0.075 for teenagers, for example, which means that the employment of teenagers would be reduced by three-quarters of 1 percent after a 10 percent change in the minimum wage. The equivalent estimate under the $10.10 option is −0.10.

under the $9.00 option is smaller than that of the $10.10 option, CBO expects that fewer employers would find it desirable to incur the adjustment costs of reducing employment (such as installation of new equipment). Fourth, the $9.00 option would apply to a smaller share of the workforce. Four percent of the labor hours in the economy will be worked by people who will earn up to $9.00 per hour under current law and who would either receive a wage increase or be jobless if the $9.00 option was implemented, CBO estimates. In contrast, about 10 percent of labor hours will be worked by people who will earn up to $10.10 per hour under current law and who would either receive a wage increase or be jobless if the $10.10 option was implemented. Thus, the $9.00 option would cause a correspondingly smaller increase in costs, which employers would be likely to absorb less through reductions in employment and more in other ways.

In CBO's assessment, there is a two-thirds chance that the effect of the $9.00 option would be in the range between a very slight increase in the number of jobs and a loss of 200,000 jobs.[13] If employment increased under either option, in CBO's judgment, it would probably be because increased demand for goods and services (resulting from the shift of income from higher-income to lower-income people) had boosted economic activity and generated more jobs than were lost as a direct result of the increase in the cost of hiring low-wage workers.

CBO has not analyzed the effects of either option on the number of hours worked by people who would remain employed or on the decision to search actively for work and join the labor force by people who would not otherwise be working. Therefore, the agency has not reported the effects of the options on full-time-equivalent employment or on the unemployment rate.

Effects of the Options on Family Income

Among the 33 million low-wage workers earning less than $11.50 per hour in the second half of 2016 under current law, CBO estimates, real earnings would increase by $31 billion as a result of higher wages if the $10.10 option was implemented. (All amounts of income reported for that period are annualized—that is, multiplied by two—and reported in 2013 dollars.) About 16.5 million workers who will earn less than $10.10 per hour under current law would receive higher wages, CBO estimates, and some workers who will earn between $10.10 and $11.50 per hour under current law would receive higher wages as well.[14] Most of the additional income would accrue to families with fairly low income, but a substantial portion would also be received by low-wage workers in higher-income families—29 percent and 6 percent by families who would otherwise have had income greater than three and six times the Federal poverty threshold, respectively.

That increase in income resulting from higher wages would be accompanied by reductions of a similar amount in real income from several other sources: decreases in earnings for workers who would be jobless because of the minimum-wage increase; losses in income for business owners; and increases in prices of goods and services, which would reduce people's purchasing power. In addition, a few higher-wage workers would be employed and earn more because of increased demand for goods and services resulting from the minimum-wage increase.

Once all those factors are taken into account, CBO estimates that the net changes in real income would be an increase of about $5 billion for families whose income would have been below the poverty threshold under current law; an increase of $12 billion for families whose income would have been between one and three times the poverty threshold; an increase of $2 billion for families whose income would have been between three and six times the poverty threshold; and a *decrease* of $17 billion for families whose income would have been greater than that (see Figure 3). (In 2016, six times the poverty threshold will be roughly $120,000 for a family of three and $150,000 for a family of four, CBO projects.) According to CBO's estimates, the increase in earnings for the few low-wage workers living in that last group of families would be more than offset by income reductions, in part because

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[13] In a recent survey, leading economists were asked whether they agreed with the statement that "raising the Federal minimum wage to $9 per hour would make it noticeably harder for low-skilled workers to find employment." When the results were weighted by the respondents' confidence, 40 percent of the economists agreed with the statement, 38 percent disagreed, and 22 percent were uncertain. However, the survey did not specify how large a drop in employment was meant by "noticeably harder . . . to find employment." See University of Chicago Booth School of Business, "Minimum Wage" (published February 26, 2013; accessed January 8, 2014), *http://tinyurl.com/aa52pfo*.

[14] CBO did not estimate the number of workers in the latter group who would receive higher wages as a result of the increase in the minimum wage; instead, it applied an estimated average percentage increase in wages to all workers in that group.

the losses in business income and in real income from price increases would be concentrated in those families (see Table 3).

Families whose income will be below the poverty threshold in 2016 under current law will have an average income of $10,700, CBO projects (see Table 4). The agency estimates that the $10.10 option would raise their average real income by about $300, or 2.8 percent. For families whose income would otherwise have been between the poverty threshold and 1.5 times that amount, average real income would increase by about $300, or 1.1 percent. The increase in average income would be smaller, both in dollar amounts and as a share of family income, for families whose income would have been between 1.5 times and six times the poverty threshold. And for families whose income would otherwise have been greater than six times the poverty threshold, the total effect of the $10.10 option would be a reduction in average real income of about $700, or 0.4 percent. But the effects of a minimum-wage increase on family income would vary even among families with similar incomes under current law. For example, many families with income less than six times the poverty threshold would see their income rise; but income for a smaller set of those families would decline, because some low-wage workers would lose jobs that they would otherwise have.

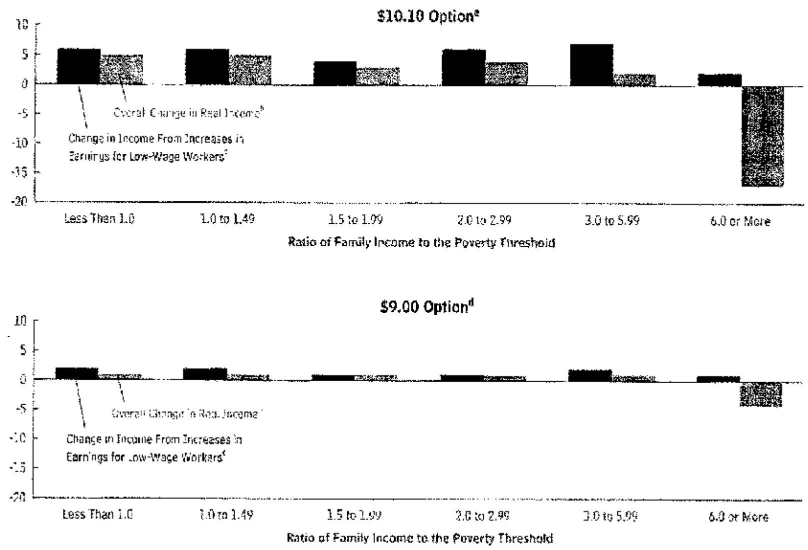
Under current law, CBO projects, there will be roughly 45 million people in families whose income is below the poverty threshold in 2016. The $10.10 option would reduce that number by about 900,000, or 2 percent, according to CBO's estimate. That estimate takes into account both families whose income would increase and move them out of poverty and families whose income would fall and move them into poverty. The estimate uses a measure of family income called cash income, which is used to determine the official poverty rate. Cash income includes earnings and cash transfers from the government, such as Supplemental Security Income benefits. It excludes noncash transfers, such as benefits from Medicaid and the Supplemental Nutrition Assistance Program (SNAP, formerly known as the Food Stamp program); taxes; and tax credits, such as the earned income tax credit (EITC). (Because the EITC provides cash to many lower-income families, it is sometimes compared with the Federal minimum wage in discussions about how to boost lower-income families' resources.)

Implementing the $9.00 option would have a smaller effect on family income and on the number of people in poverty than implementing the $10.10 option would. About 7.6 million workers who will earn less than $9.00 per hour under current law would receive higher wages, CBO estimates, and so would some workers who will earn more than $9.00 per hour under current law. Once all factors are taken into account, CBO estimates that the net changes in total real income would be an increase of about $1 billion for families whose income would otherwise have been below the poverty threshold; increases totaling $4 billion for families whose income would have been between one and six times the poverty threshold; and a decrease of about $4 billion for families with higher income, as the declines in income for business owners and the loss of purchasing power would more than offset the increases in earnings for low-wage workers in that group. The agency estimates that average real family income would increase by about $100, or 0.9 percent, for families whose income would have been below the poverty threshold, and that the number of people living in such families would decline by about 300,000, or two-thirds of 1 percent. That is one-third of the decline in the number of people in poverty that would occur under the $10.10 option, CBO projects. For families whose income would otherwise have been six times the poverty threshold or more, average real family income would be lower by 0.1 percent.

Figure 3.

Estimated Effects on Real Family Income of an Increase in the Federal Minimum Wage, Second Half of 2016

(Billions of 2013 dollars, annualized)



Source: Congressional Budget Office based on annual data from the Census Bureau's Current Population Survey.

Note: Calculated using before-tax family cash income. Poverty thresholds vary with family size and composition. The definitions of income and of poverty thresholds are those used to determine the official poverty rate and are as defined by the Census Bureau. CBO projects that in 2016, the poverty threshold (in 2013 dollars) will be about $18,700 for a family of three and $24,100 for a family of four.

a. The minimum wage would rise (in three steps, starting in 2014) to $10.10 by July 1, 2016, and then be indexed to inflation.

b. Changes in real (inflation-adjusted) income include increases in earnings for workers who would receive a higher wage, decreases in earnings for workers who would be jobless because of the minimum-wage increase, losses in income for business owners, decreases in income because of increases in prices, and increases in income generated by higher demand for goods and services.

c. Increases in earnings for workers who are projected, under current law, to be paid less than $11.50 per hour.

d. The minimum wage would rise (in two steps, starting in 2015) to $9.00 by July 1, 2016, and would not be subsequently indexed to inflation.

The effects of the two options on average family income and on the number of people living in poverty are difficult to project accurately. Those effects depend on many things, including the extent to which the higher minimum wage would reduce employment, the length of time that people are not working, and the rate at which wages will grow over time under current law. The larger the reduction in employment for a given increase in the minimum wage, the less effective the policy would be at raising families out of poverty. And if wages grew more quickly under current law than CBO projects, fewer workers would have their wages increased under the options, and the effect on poverty would be smaller. (If those wages grew less quickly than CBO projects, the effect would be larger.)

Table 3.—Projected Shares of Workers, by Family Income Group, Second Half of 2016

Ratio of family income to the poverty threshold	Percentage of all workers	Percentage of low-wage workers [1]
Less than 1.0	6	20
1.0 to 1.49	6	16
1.5 to 1.99	7	14
2.0 to 2.99	16	18
3.0 to 5.99	39	24

Table 3.—Projected Shares of Workers, by Family Income Group, Second Half of 2016—Continued

Ratio of family income to the poverty threshold	Percentage of all workers	Percentage of low-wage workers [1]
6.0 or More	26	9
Total	100	100

Source: Congressional Budget Office based on annual data from the Census Bureau's Current Population Survey.

Note: Calculated using before-tax family cash income. Poverty thresholds vary with family size and composition. The definitions of income and of poverty thresholds are those used to determine the official poverty rate and are as defined by the Census Bureau. CBO projects that in 2016, the poverty threshold (in 2013 dollars) will be about $18,700 for a family of three and $24,100 for a family of four.

[1] Low-wage workers are people who are projected, under current law in the second half of 2016, to be paid less than $11.50 per hour.

THE EFFECT OF AN INCREASE IN THE MINIMUM WAGE ON THE FEDERAL BUDGET

An increase in the Federal minimum wage would directly affect the Federal budget by requiring the government to increase wages for a small number of hourly Federal employees. A minimum-wage increase would also indirectly affect the budget by boosting the prices of some goods and services purchased by the government. Most of those added costs for wages, goods, and services would need to be covered by discretionary appropriations, which are capped through 2021 under current law. If the caps were not adjusted, Federal budget deficits would not be affected by the higher costs, but the benefits and government services that could be provided under the existing caps would be reduced. If, instead, lawmakers adjusted the caps to cover the higher costs, and if future appropriations equaled those higher caps, then deficits would be larger.

In addition, an increase in the Federal minimum wage would indirectly affect the Federal budget by changing people's income—raising real income for some workers while reducing the real income of people who would be jobless because of the minimum-wage increase, of business owners, and of consumers facing higher prices. As a group, the workers receiving an earnings increase would pay more in taxes and receive less in benefits than they would have otherwise, reducing the Federal budget deficit; however, the workers, business owners, and consumers with reduced income would pay less in taxes and receive more in benefits, increasing the deficit.

CBO anticipates that the increases in income would be larger than the decreases in income for a few years after an increase in the minimum wage but would be smaller thereafter, as discussed earlier. Further, for reasons discussed below, CBO anticipates that the effective marginal tax rate—that is, the combination of increased taxes and decreased benefits for each additional dollar of income—for the increases in income would probably be slightly larger than the effective marginal tax rate for the decreases in income. Combining those factors, CBO concludes that the net effect on the Federal budget of raising the minimum wage would probably be a small decrease in budget deficits for several years but a small increase in budget deficits thereafter. It is unclear whether the effect for the coming decade as a whole would be a small increase or a small decrease in budget deficits.[15]

[15] Cost estimates produced by CBO and the staff of the Joint Committee on Taxation (JCT) typically reflect the convention that macroeconomic variables, such as nominal output and the average price level, remain fixed at the values that they are projected to reach under current law. That is a long-standing convention—one that has been followed in the congressional budget process since it was established in 1974 and by JCT since the early 1960s. Therefore, in producing a cost estimate for legislation that would increase the minimum wage, CBO and JCT would not incorporate some of the effects that such an increase would probably have on the economy. CBO was not able to assess how that approach might affect the estimated budgetary impact of increasing the minimum wage.

Table 4.—Estimates Effects on Average Real Family Income of an Increase in the Federal Minimum Wage, Second Half of 2016

Ratio of family income to the poverty threshold	Average real family income before the wage change (2013 dollars, annualized)	Change in average real family income	
		2013 Dollars, annualized	Percent
		$10.10 Option [1]	
Less Than 1.0	10,700	300	2.8
1.0 to 1.49	26,300	300	1.1
1.5 to 1.99	36,300	200	0.6
2.0 to 2.99	51,400	200	0.4
3.0 to 5.99	86,600	*	**
6.0 or More	182,200	−700	−0.4
		$9.00 Option [2]	
Less Than 1.0	10,700	100	0.9
1.0 to 1.49	26,300	100	0.4
1.5 to 1.99	36,300	100	0.3
2.0 to 2.99	51,400	100	0.2
3.0 to 5.99	86,600	*	**
6.0 or More	182,200	−200	−0.1

Source: Congressional Budget Office based on annual data from the Census Bureau's Current Population Survey.

Notes: Changes in real (inflation-adjusted) income include increases in earnings for workers who would receive a higher wage, decreases in earnings for workers who would be jobless because of the minimum-wage increase, losses in income for business owners, decreases in income because of increases in prices, and increases in income generated by higher demand for goods and services. Results are weighted by the number of people in the family; for example, when CBO calculated the averages, a family of three would be represented three times.

Calculated using before-tax family cash income. Poverty thresholds vary with family size and composition. The definitions of income and of poverty thresholds are those used to determine the official poverty rate and are as defined by the Census Bureau. CBO projects that in 2016, the poverty threshold (in 2013 dollars) will be about $18,700 for a family of three and $24,100 for a family of four.

* = between zero and $50; ** = between zero and 0.05 percent.

[1] The minimum wage would rise (in three steps, starting in 2014) to $10.10 by July 1, 2016, and then be indexed to inflation.

[2] The minimum wage would rise (in two steps, starting in 2015) to $9.00 by July 1, 2016, and would not be subsequently indexed to inflation.

Effects for People Whose Income Would Rise

As a group, the workers whose income rose because of a minimum-wage increase would consequently pay more in taxes and receive less in benefits.[16] CBO has previously estimated that the effective Federal marginal tax rate on earnings for low- and moderate-income workers is 32 percent, on average; that is, the combination of increased taxes and decreased benefits equals, on average, about one-third of such a worker's added earnings.[17] CBO expects that workers receiving an increase in earnings from a boost to the minimum wage would face a similar rate, on average. Therefore, CBO expects that the reduction in the deficit associated with people whose earnings would rise would be about 32 percent of the increase in earnings for those workers.

Part of that deficit reduction would result from increased tax payments for the workers who were earning more. The largest part of that increase would consist of payroll taxes assessed for Social Security and Medicare, which are paid at a combined rate of 15.3 percent by most employees and employers.[18] The increase in earnings for some workers would also increase the amount that they owed in income

[16] In the short term, some people would also see an increase in income because, as discussed earlier, an increase in the minimum wage would boost economywide demand for goods and services and thereby generate an increase in the Nation's total output and income. That additional income would raise Federal taxes and lower benefits. By contrast, in the long term, and also as discussed earlier, an increase in the minimum wage would generate a decrease in total output and income. That loss in income would lower Federal taxes and raise benefits; those effects are incorporated in the discussion in the following section.

[17] Congressional Budget Office, *Effective Marginal Tax Rates for Low- and Moderate-Income Workers* (November 2012), *www.cbo.gov/publication/43709*. Table 6 in that report shows an aggregate marginal rate for 2014 of 34.8 percent. Subtracting the marginal rate attributable to State income taxes yields a Federal marginal rate of 32.2 percent. That rate includes the effects of Federal income and payroll taxes and of refundable earned income, child, and premium assistance tax credits for health insurance purchased through exchanges. It also includes changes in benefits under SNAP and cost-sharing subsidies provided to some participants in health insurance exchanges. That report was published before the enactment of the American Taxpayer Relief Act of 2012, but CBO estimates that the average Federal marginal rate for 2014 would remain at about 32 percent after incorporating the effects of that act.

[18] The 12.4 percent Social Security portion of that tax is paid on earnings up to a threshold ($117,000 in 2014).

taxes before refundable tax credits were taken into account, although almost all of them would owe no tax or be in one of the two lowest Federal income tax brackets. In addition, benefits from the EITC would fall for workers whose annual income was in the range where the credits decrease with income. (However, those benefits would rise for workers whose annual income remained in the income range where the credits increase with income, and some workers with increased earnings would qualify for a larger child tax credit.)

The rest of the deficit reduction would result from less Federal spending (aside from the effects on refundable earned income and child tax credits) for the workers receiving an increase in earnings. Spending on cash and near-cash transfer programs (such as SNAP and Supplemental Security Income) would decline for those workers, because the amount of those benefits generally falls as income rises.[19] In addition, spending for premium assistance tax credits and cost-sharing subsidies for health insurance purchased through exchanges would decline for people who will be receiving such support under current law, because the amount of that support also generally falls as income rises.[20]

The estimated effective Federal marginal tax rate of 32 percent does not include the budgetary effects of some people's moving out of Medicaid coverage or into subsidized insurance coverage through exchanges because their earnings had increased.[21] Some of those effects would raise Federal costs and others would lower them. In particular, some people who will be eligible for Medicaid under current law and would receive higher earnings because of a minimum-wage increase would lose eligibility for Medicaid. Some of those people would gain eligibility for subsidized coverage through exchanges and would choose to take up that coverage; for those people, Federal costs would rise. However, some of the people who would lose eligibility for Medicaid would not gain eligibility for subsidized coverage through exchanges (because their income would still be too low) or would gain eligibility but would choose not to take up that coverage (in part because they would have to pay a portion of their premiums themselves); for those people, Federal costs would fall. Moreover, some people who, under current law, will not be eligible either for Medicaid or for subsidized coverage through exchanges (because they live in a State that has not expanded Medicaid coverage under the Affordable Care Act but will have too little income to qualify for the subsidies) would gain eligibility for subsidized coverage through exchanges and would choose to take up that coverage; for those people, Federal costs would rise. The net Federal cost of those various shifts would be small, CBO expects.

Effects for People Whose Income Would Fall

Apart from the group of workers whose earnings rose because of a minimum-wage increase, other people would generally see a reduction in real income, CBO estimates. Some of the reduction would consist of lower earnings for workers who became jobless for at least part of a year because of the change in policy. Some would consist of lower profits for business owners. The remainder would come from higher prices, which would reduce real income. However, it is unclear how much of the total reduction in income would come from each of those sources, and that allocation would affect the impact of a minimum-wage increase on the Federal budget. CBO has not estimated the effective Federal marginal tax rate for that collection of reductions in income, but the agency anticipates that it would probably be slightly smaller than the effective Federal marginal tax rate for the people who would receive higher income.

CBO estimates that workers who were jobless for at least part of a year because of the minimum-wage increase would suffer a loss of real income. As a result, those workers would pay less in taxes and receive more in benefits. The effective Federal marginal tax rate for those workers would be similar in magnitude to the rate for workers whose earnings rose.

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[19] Some researchers have examined the change in cash and near-cash transfer payments that would result from a minimum-wage increase. See Linda Giannarelli, Kye Lippold, and Michael Martinez-Schiferl, *Reducing Poverty in Wisconsin: Analysis of the Community Advocates Public Policy Institute Policy Package* (Urban Institute, June 2012), *http://tinyurl.com/q7jb8v6* (PDF, 2.1 MB); and Linda Giannarelli, Joyce Morton, and Laura Wheaton, *Estimating the Anti-Poverty Effects of Changes in Taxes and Benefits with the TRIM3 Microsimulation Model* (Urban Institute, April 2007), *http://tinyurl.com/p75lejh* (PDF, 2.9 MB). The authors estimate that the reduction in transfer payments for those receiving an increase in earnings would be roughly 4 percent of that increase in earnings.

[20] A small portion of the premium assistance tax credits represents a reduction in revenues.

[21] There would also be budgetary effects of some people's moving between eligibility categories for Medicaid and some people's moving between Medicaid and the Children's Health Insurance Program.

CBO estimates that profits would also be lower. The lower profits would mean less in personal and corporate income tax receipts. CBO expects that some of the reduction in profits would be for businesses subject to the corporate tax, which would lower corporate tax receipts; the reduction in profits would also indirectly reduce personal income tax receipts, because stockholders' dividend income and realized capital gains on corporate stock would be lower. For those firms, CBO estimates that the decline in corporate and personal tax payments would amount to roughly one-third of the decline in profits. However, some of the reduction in profits would be for firms not subject to the corporate tax, most of whose income is directly subject to the individual income tax. For those firms, the resulting reduction in individual income tax payments could be somewhat lower, as a share of the reduction in profits, than the estimated one-third decline for firms subject to the corporate tax.

Prices would rise as a result of a minimum-wage increase, according to CBO's analysis. That increase in prices would raise Federal transfer payments, because some of those payments, such as Social Security, are automatically indexed to changes in the price level. An increase in prices would also reduce Federal personal income taxes, because many parameters of the tax system change automatically when the price level rises. Federal spending that is not subject to statutory caps and is not indexed to changes in the price level might also increase, although the extent of that increase would depend on the concentration of minimum-wage workers in the sectors of the economy in which the Federal Government was doing such spending. CBO was not able to estimate the effective marginal tax rate from the collection of changes in taxes and spending that would take place because of price changes.

The CHAIRMAN. Thank you very much, Mr. Elmendorf.

We will do 3-minute questions.

Mr. Elmendorf, CBO says this is going to cost 500,000 to 900,000 jobs. It is going to cost 500,000 jobs. We keep hearing it all the time. However, I just want to confirm with you that there was substantial uncertainty around that estimate.

For example, most of the literature out there and the economists agree with you that raising the minimum wage will give raises to tens of millions of workers, put billions of dollars into their pockets, lift many out of poverty. But that one issue of causing job loss seems to be kind of an outlier, a little bit, from the general literature that is out there in economic writings. I just want to confirm with you: did CBO actually say that there would be a 500,000-job loss if we went to $10.10 an hour.

Mr. ELMENDORF. Mr. Chairman, the central estimate that we produced for the effects of an increase to $10.10 is a reduction in employment of 500,000 workers. That is the central estimate in a wide range.

The CHAIRMAN. What is the range?

Mr. ELMENDORF. We think the likely range, the range with a two-thirds probability, goes from a very slight decrease to a decrease of about a million, and the 500,000 loss is essentially in the middle of that range. And we think that is consistent with a balanced reading of the literature.

The CHAIRMAN. So you just picked the middle of that. You just said 500,000. It could be 100,000 job loss.

Mr. ELMENDORF. It could be smaller job loss or it could be larger job loss, Mr. Chairman.

The CHAIRMAN. You do not know.

But the other facts you are pretty certain about, and that is, that it will raise tens of millions of workers' salaries and wages, that it will put billions of dollars in their pockets, lift millions of people out of poverty.

Mr. ELMENDORF. The effects, as you describe them qualitatively, Mr. Chairman, I think we are pretty sure of, but the quantitative estimates of those increases are also uncertain. So the precise numbers of people, numbers of families, and so on—those are uncertain estimates as well.

The CHAIRMAN. There are some studies showing that the minimum wage has a positive effect on employment growth, such as we heard in Washington State. Did you consider any of those studies?

Mr. ELMENDORF. Yes, Mr. Chairman, there are some studies that show that, but there are also studies that show considerably larger losses in employment than our central estimate. And that is why we think our estimate is consistent with a balanced reading of the evidence, but the evidence, as you say, covers a wide range of possibilities.

The CHAIRMAN. Are you aware of any other policy that would directly provide such a big income boost to such a large proportion of low-wage workers or a large reduction in poverty without increasing the Federal deficit?

Mr. ELMENDORF. No, I am not, Mr. Chairman. As you know, other policies often discussed in this context will be an expansion of the Earned Income Tax Credit, and that would have a Federal budgetary cost.

The CHAIRMAN. Or increasing in TANF or food stamps or things like that.

Mr. ELMENDORF. Yes, that is right. I do not want to rule out other possibilities, but nothing comes to my mind.

The CHAIRMAN. Thank you very much, Mr. Elmendorf.

Senator Alexander.

Senator ALEXANDER. Thank you, Mr. Chairman.

Mr. Elmendorf, a pretty good economist, the Chairman of the Federal Reserve, said what you said, that the minimum wage has two main effects. One is higher wages for those who have jobs, and the second would be some amount of unemployment as a consequence and that the CBO is as qualified as anyone to evaluate that literature.

The Congressional Budget Office is nonpartisan. Correct?

Mr. ELMENDORF. Absolutely, Senator.

Senator ALEXANDER. And did you not say in your report that, yes, it would raise the wages of those affected, but once fully implemented in the second half of 2016, the $10.10 option, the chairman's proposal, would reduce total employment by about 500,000 workers?

Mr. ELMENDORF. That is our central estimate, Senator, yes.

Senator ALEXANDER. Your central estimate, which is within the range of a slight reduction in employment or as high as a million reduction.

Mr. ELMENDORF. Yes, that is right, Senator.

Senator ALEXANDER. And that is the result, as I understood you to say, of a balanced reading of the literature.

Mr. ELMENDORF. Yes, in our view, Senator, that is right.

Senator ALEXANDER. And Chairman Yellen said that you are as good as anybody to review the literature in her comment.

Did you not also say in your report that the benefits of this higher wage increase would go to—just 19 percent of this would accrue

to families with earnings below the poverty level, in other words, about one in five of those who received the benefits of this higher wage live in families below the poverty level?

Mr. ELMENDORF. Yes, that is right, Senator.

Senator ALEXANDER. Did you not say that 29 percent, nearly a third, of the benefits would accrue to families earning more than three times the poverty level?

Mr. ELMENDORF. Yes, that is our estimate, Senator.

Senator ALEXANDER. Did you not also say that under the current law, you would project that there will be roughly 45 million people in families whose income is below the poverty level in 2016 and that this proposal would reduce that number by 2 percent?

Mr. ELMENDORF. Yes, that is our estimate, Senator.

Senator ALEXANDER. Mr. Chairman, my hope would be that if we are going to continue to consider this proposal about jobs that we would be allowed to have amendments that would do better than cause a loss of 500,000 jobs, according to a balanced view by the Congressional Budget Office, would provide benefits to a larger number of people below the poverty level than 20 percent, according to the Congressional Budget Office, and that would not make it more expensive to create jobs, which would seem to me to be exactly the opposite of what we ought to try to be doing in a period of time when we have had such longstanding unemployment among so many people.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Alexander.

Senator Casey.

STATEMENT OF SENATOR CASEY

Senator CASEY. Thank you very much, Mr. Chairman.

I wanted to say preliminarily that I am a supporter of the increase in the minimum wage, and part of the reason for that is some of the data that we have seen in Pennsylvania just in terms of the impact on lifting workers out of poverty, for example, 127,000 workers out of poverty nationwide and the impact on children.

Mr. Elmendorf, I just want to make some of the data correct. You said in the report that 900,000 Americans would be lifted out of poverty based upon the minimum wage increase to $10.10. Is that correct?

Mr. ELMENDORF. Yes, that is right, Senator.

Senator CASEY. And is it not true as well that you found that 71 percent of the income gains would go to families with incomes less than three times the poverty level, which would be about $56,000 for a family of three? Is that right?

Mr. ELMENDORF. Yes, Senator.

Senator CASEY. So the impact of the minimum wage on families is rather substantial.

And I would ask you, do you know of any—or I should say, have you analyzed, has CBO analyzed any other policy initiative or legislation in, say, the last 6 months that would have those effects, 71 percent of the income gains would go to families less than three times the poverty level, 900,000 Americans would be lifted out of poverty?

Mr. ELMENDORF. No, Senator. We analyzed no other policies that would have those effects.

Senator CASEY. Thank you very much.

I want to give back some time.

The CHAIRMAN. Thank you very much, Senator Casey.

Senator Hatch.

STATEMENT OF SENATOR HATCH

Senator HATCH. Dr. Elmendorf, I appreciate the work you are doing.

Mr. ELMENDORF. Thank you, Senator.

Senator HATCH. I think you try very, very hard to get it right, and I for one am a fan.

In 2010 and again in 2012, President Obama signed legislation to postpone increasing the minimum wage in American Samoa toward the Federal minimum. Now, his actions were partly in response to the findings of possibly severe negative labor market effects by the Government Accounting Office, or GAO, as I recall. In the case of American Samoa, the President's actions appeared to be an explicit acknowledgement of differences across regions, particularly with regard to the purchasing power of a dollar, meaning that a one-size-fits-all approach to the minimum wage just is not suitable or equitable, I guess I should say. Nonetheless, the Administration is advocating an eventual 39 percent increase in a single federally mandated minimum wage to apply to all States independent of purchasing power variations across States and regions.

Now, Mr. Director, can you acknowledge that the negative labor market effects from imposing a national one-size-fits-all increase in the Federal minimum wage will differ from State to State with greater negative effects in places like my home State of Utah, Iowa, Idaho, or South Dakota where the cost-of-living is below the national average?

Mr. ELMENDORF. Senator, you are right that the effects of this sort of increase would vary substantially across States. We have not done the analysis at a State level. I think the effects on both employment and family income would tend to be much larger in States that had lower wages and thus the increase in the Federal minimum wage would have bigger effects. The effects would be smaller in States where the wages were higher to start with or where there already is a State minimum wage that is higher than the Federal minimum wage.

Senator HATCH. My experience is that these small businesses in Utah, in particular, and I think smaller States, unlike the blue States on the west coast, the east coast—that they try to get by with less. They actually cut employment rather than have employment. And then am I right also in what I have always found to be the case and have been always led to believe that a lot of these entry-level jobs, once they take them and prove that they can do them, they generally progress out of them into better jobs? Is that a fair comment?

Mr. ELMENDORF. I think that is fair, Senator. I do not have any numbers at hand to that effect, but I think you are right that people, in many cases, with greater experience and as they build their

skills move up in the nature of the job they are asked to do and move up in the wages that they are paid.

Senator HATCH. So to have a one-size-fits-all for all States does not make quite good sense. This should be a determination made by the States, it seems to me.

My time is up, Mr. Chairman, but I am concerned about that, and just because New York costs more, should every other State have to be meeting these demands? And I am not sure New York meets them.

The CHAIRMAN. Thank you, Senator.

Senator Baldwin.

STATEMENT OF SENATOR BALDWIN

Senator BALDWIN. Thank you, Mr. Chairman.

Director Elmendorf, I wanted to start off on a question regarding the age group that would benefit from an increase in the minimum wage. And I am looking at Table 2 from your testimony. Is it correct to assume that the vast majority of low-wage workers who would see an increase in wages are actually adults and not teenagers?

Mr. ELMENDORF. Yes, that is right, Senator. As we show in the table, of low-wage workers, 88 percent, we estimate, will be aged 20 or older, and only 12 percent would be teenagers.

Senator BALDWIN. OK.

Additionally in your testimony you say that while there may be a belief among some that minimum wage workers are primarily teenagers, that that is not actually the case. Can you give me a description of the characteristics of people who earn within 25 cents of the minimum wage in that age distribution?

Mr. ELMENDORF. Senator, the table I have in front of me is this table that you referred to where we are looking at the set of workers who would be paid less than $11.50 an hour under current law in the second half of 2016. These are the people we think would be affected by the increase in the minimum wage. And as we indicated, they are very heavily adults, more women than men, tend to be people with less rather than more education. Obviously, there are some teenagers in that group, but they are not just the image people sometimes have in mind of being solely or predominantly even teenagers.

Senator BALDWIN. Is there anything you can tell me about household income of families that contain these minimum wage workers?

Mr. ELMENDORF. Yes. Of all the low-wage workers, again these people earning up to $11.50 an hour, about a fifth of them are in families earning—with a total income less than the Federal poverty threshold. Another 30 percent are in families with income between one and two times the Federal poverty threshold. So about half of low-wage workers are in families whose income is below two times the Federal poverty threshold.

Senator BALDWIN. I thank you for helping clear up an issue because we certainly hear a lot of commentary about most of these workers being minors.

Just one final question on teen employment. When we are talking about a teenager who is perhaps working in their first or sec-

ond summer job, is it not correct that an employer could pay below the minimum wage for their first 90 days of employment?

Mr. ELMENDORF. Yes, that is right, Senator. Very few employers seem to do that, but it is an option they have under the law.

Senator BALDWIN. Can you just remind me of what law permits that?

Mr. ELMENDORF. This is the Fair Labor Standards Act, I believe. I think we write about this in our report.

Senator BALDWIN. Thank you.

The CHAIRMAN. Thank you.

Senator Warren.

Senator WARREN. Thank you, Mr. Chairman.

Thank you, Mr. Elmendorf.

Your report has been cited to suggest that a minimum wage increase will lead to job losses. So I want to dig just a little bit more into what we actually know about the effects of this proposal.

Now, as I understand it, you did not conduct any original research into the relationship between employment and minimum wage increases. You just collected the existing studies on that relationship, weighted the findings, and then made an overall estimate of the impact. Is that right?

Mr. ELMENDORF. That is exactly right, Senator.

Senator WARREN. OK. I just wanted to make sure.

Some of the studies that were in the pool of those you examined said there would be little or no job loss as a result of an increase in the minimum wage. Is that right?

Mr. ELMENDORF. Yes, that is right, Senator.

Senator WARREN. Good.

What you did in effect is a meta-study. You did a study of studies. I understand that has also been done by other economists where they have done the same thing that the CBO did, only perhaps because they weighed the studies somewhat differently, they came to a different conclusion.

Just last year, the Center for Economic and Policy Research examined every study since 2000 and concluded that, “there was little or no employment response to increases in the minimum wage.” In other words, increasing the minimum wage according to all of the studies since 2000 did not cause any job loss.

A 2009 literature review that examined 64 studies and 1,500 estimates concluded that any adverse employment effect would be, “of a small and policy irrelevant magnitude.” In other words, they do not see that it has a job effect.

An empirical study by Dube, Lester, and Reich compared 288 pairs of neighboring U.S. counties in States with different minimum wages from 1990 to 2006, and found in these matched pairs there was no adverse employment effect from wage differences.

Now, my point is not whether the CBO is right or wrong. I understand that estimates sometimes come out differently. That is why they are called estimates. But I do understand that others have looked at these studies, and with somewhat different weightings, they have come to the conclusion that there is no impact on jobs.

But there is another number that I want to focus on for just a minute, and that is a single mother with one child working full-

time at today's minimum wage. Does she earn below the poverty level?

Mr. ELMENDORF. Yes, Senator, she does.

Senator WARREN. And if we raise the minimum wage to $10.10, will she be above the poverty level?

Mr. ELMENDORF. I have not done that calculation, Senator.

Senator WARREN. I will tell you. She will be making $21,000 a year. Will that put her above the poverty level?

Mr. ELMENDORF. This year, Senator? I am not sure, Senator.

Senator WARREN. We will go back and look at the numbers again, but I think the answer is yes.

So that is where I will conclude.

Thank you very much, Mr. Chairman. This is really about the fact that no one should work full-time and live in poverty, and raising the minimum wage will at least fix that fact. Thank you.

The CHAIRMAN. Thank you, Senator. Thank you very much.

Mr. Elmendorf, thank you for your conciseness and your succinctness in this and for being here this morning. We will excuse you.

Mr. ELMENDORF. Thank you, Mr. Chairman. We are very happy to be here.

The CHAIRMAN. We will call our third panel, and that is Dr. Heather Boushey, director of the Washington Center for Equitable Growth. Dr. Boushey is an economist, policy expert. She most recently served as the senior economist at the Center of American Progress.

Then we have Sister Simone Campbell, executive director of NETWORK, a national Catholic social justice lobby. Sister Simone is a faith leader and a leading advocate against poverty, relying on the social justice tradition of Catholic social teaching to call for protecting the poor. She is a Catholic nun and a member of the religious order of Sisters of Social Service.

Then we have Alicia McCrary, a fast food worker from Northwood, IA, a single mother of four boys. I said three earlier, but four boys, ages 11, 10-year-old twins, and a 5-year-old. She works for $7.65 an hour 20 to 25 hours a week, travels 20 miles by bus to work in Mason City, and the lack of an evening bus prevents her from working full-time. She relies on Medicaid, public housing, TANF, food stamps, and LIHEAP, and gets the Earned Income Tax Credit and child care assistance for the 5-year-old. She is participating in a program run by the North Iowa Community Action Agency.

Again, welcome. Your statements will be made part of the record. I ask you to sum up in about 3 minutes. Dr. Boushey, we will start with you.

STATEMENT OF HEATHER BOUSHEY, Ph.D., B.A., EXECUTIVE DIRECTOR AND CHIEF ECONOMIST, WASHINGTON CENTER FOR EQUITABLE GROWTH, WASHINGTON, DC

Ms. BOUSHEY. Thank you. Thank you, Chairman Harkin and Ranking Member Alexander and the rest of the committee, for inviting me here to testify today.

My name is Heather Boushey. I am executive director and chief economist at the Washington Center for Equitable Growth. At our center, we are devoted to understanding what grows our economy,

with an emphasis on understanding whether and how high and rising levels of inequality affect the economy. It is an honor to be here today to discuss how a fair minimum wage will help families succeed and support broad-based economic growth in our society.

Let me be very clear. One of the best ways to fight poverty is to ensure people have jobs with decent wages that put them above the poverty line. Raising the minimum wage and keeping its value at a reasonable level through indexing it to inflation will establish a stronger first rung on the ladder to economic security. The minimum wage is a cornerstone of a set of policies, including the Earned Income Tax Credit, the Affordable Care Act, paid sick days, and paid family medical leave that provide the foundation for economic security for workers and their families.

There are three main conclusions from my testimony.

First, raising the minimum wage will reduce poverty. According to estimates, raising the minimum wage to $10.10 an hour will reduce the poverty rate for non-elderly Americans to 15.8 percent by 2016 from today's rate of 17.5 percent. This increase would bring about 6.8 million people out of poverty.

Second, raising the minimum wage will help family breadwinners support their children. The typical minimum wage earner brings in half their family's income, and raising the minimum wage will help them.

Third, raising the minimum wage will have a positive economic effect above and beyond lowering the poverty rate. The consensus of the economic research points to the conclusion that a higher minimum wage does not reduce employment. The CBO report, while an important report, is outside of the mainstream in terms of its estimate of employment. And it is worth noting that at a 90 percent confidence interval, it does include a zero impact on employment. The minimum wage increase would boost productivity and address the growing problem of rising income inequality.

The Fair Minimum Wage Act is necessary because Congress has allowed the value of the minimum wage to decline sharply in recent years, leaving too many workers toiling full-time but still in poverty. The purchasing power of the minimum wage hit a high in 1968 and has declined by 23 percent since then. At the same time, the overall economy has grown considerably as gross domestic product grew by 245 percent between 1968 and 2013. We can afford to raise the minimum wage.

Twenty-one States and the District of Columbia have already acted and have minimum wages higher than the Federal minimum.

We know from experience that raising the minimum wage delivers positive results in the fight against poverty and efforts to grow the middle class.

An overwhelming majority of recent economic research has found that raising the minimum wage has little to no effect on unemployment. Even during recessions and periods of high unemployment, raising the minimum wage does not cause job losses. Economists John Addison, McKinley, Blackburn, and Chad Cotti find no evidence that minimum wage hikes reduce employment generally or during recessions. This is also a fact that is supported by the CBO report that was just discussed.

What a higher minimum wage does is increase earnings. According to the Congressional Budget Office, increasing the minimum wage to $10.10 would directly increase earnings for 16.5 million workers. And economist Arin Dube estimates that the proposed minimum wage would lift about 4.6 million people out of poverty, or about 6.8 million if longer-term effects are accounted for.

Nearly a quarter of the workers who would benefit from the Fair Minimum Wage Act earn below $20,000 a year and half earn below $40,000 a year.

Now, of course, the minimum wage works in tandem with other income supports and basic labor standards. For example, at the current minimum wage level, a full-time single earner with two dependents could receive over $5,000 from the Earned Income Tax Credit for a total income of over $20,000 after Federal taxes.

However, one concern with the EITC is that it subsidizes low-wage employers. According to economist Jesse Rothstein's estimates, employers capture about 27 percent of the value of the Earned Income Tax Credit. So those raises do not all go to workers differently than when we raise the minimum wage. A higher minimum wage would reduce the portion of the subsidy that goes to employers.

Further, there is a significant amount of economic evidence that shows the higher minimum wage can boost productivity and reduce turnover, and this, in fact, are the reasons why raising the minimum wage does not, in general, reduce employment.

The anti-poverty effects of the minimum wage are significant, especially when they are combined with other anti-poverty policies. Any effort to reduce poverty and increase mobility at the bottom rungs of the income ladder should begin by increasing the minimum wage.

Thank you.

[The prepared statement of Ms. Boushey follows:]

PREPARED STATEMENT OF HEATHER BOUSHEY, PH.D., B.A.

INTRODUCTION

I would like to thank Chairman Harkin, Ranking Member Alexander, and the rest of the committee for inviting me here today to testify.

My name is Heather Boushey and I am executive director and chief economist of the Washington Center for Equitable Growth. The center is a new project devoted to understanding what grows our economy, with a particular emphasis on understanding whether and how high and rising levels of economic inequality affect economic growth in our Nation.

By training, I am a labor economist. I have spent my career seeking to understand the American labor market and the effects of public policy on family economic well-being and the economy more generally. It is an honor to be invited here today to discuss how a fair minimum wage will help families succeed and support broad-based income growth in our society.

The best way to fight poverty is to make sure people have jobs with decent wages that put them above the poverty line. Raising the minimum wage and ensuring that its value stays at a reasonable level over time through indexing it to the cost-of-living will establish a stronger first rung on the ladder to economic security. The minimum wage is the cornerstone of a set of policies, including the Earned Income Tax Credit, the Affordable Care Act, as well as some yet to be implemented nationwide, such as paid sick days and paid family and medical leave that provide the foundation for economic security for workers and their families.

There are three key conclusions from my testimony:

- Raising the minimum wage will reduce poverty. According to economic estimates, raising the minimum wage to $10.10 an hour will reduce the poverty rate

for non-elderly Americans to 15.8 percent by 2016 from current 17.5 percent levels. This increase would bring about 6.8 million people out of poverty.

- Raising the minimum wage will help family breadwinners support their children. The typical minimum wage earner brings in half of their family's income. Congress should also take care to make sure that other benefits for low-wage workers provide a full package for low-wage workers and their families as families will also need help with access to affordable and quality health care, childcare, and housing, even at a higher minimum wage.
- Raising the minimum wage will have positive economic effects above and beyond lowering the poverty rate. Economic research points to the conclusion that a higher minimum wage does not cause greater unemployment, boosts productivity, and addresses the growing problem of rising income inequality.

The rest of my testimony will focus on the facts about the minimum wage, a review of the academic literature on the impact on poverty of raising the minimum wage, and a consideration of how the minimum wage interacts with other poverty-fighting programs to help low-wage workers enter the middle class.

THE STATE OF THE MINIMUM WAGE

The Federal minimum wage is currently $7.25 an hour, where it's been since July 2009. Raising the minimum wage to $10.10 would be in line with its value in the past. The minimum wage has been raised 22 times since first enacted into law in 1938, most recently in three steps between 2007 and 2009.[1]

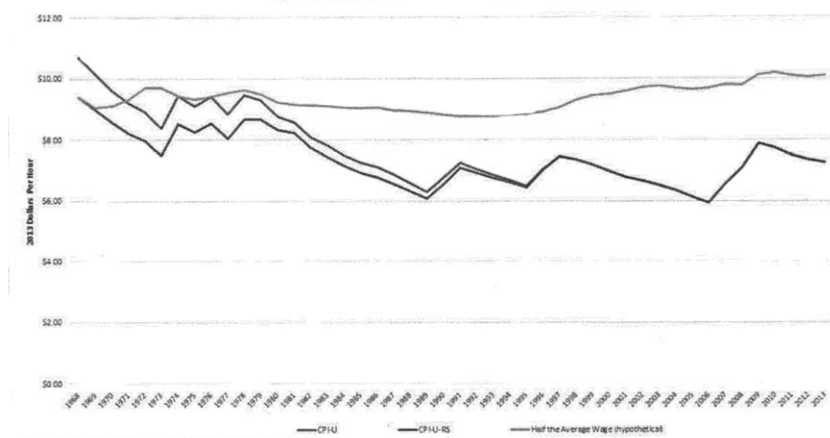
The Fair Minimum Wage Act of 2013 would raise the minimum wage to $10.10 in three steps, beginning 3 months after passage of the bill and ending 2 years after the first increase. The law will then index the minimum wage to the rate of inflation, ensuring that its value does not erode over time. It will also raise the minimum wage for workers who earn tips, such as food service workers, to $7.10 an hour.

The Fair Minimum Wage Act is necessary because Congress has allowed the purchasing power of the minimum wage to decline sharply in recent years, leaving too many workers toiling full-time, but not able to rise above poverty. The purchasing power of the minimum wage hit a high in 1968 and has declined by 23 percent since then in inflation-adjusted dollars, using the Bureau of Labor Statistics Consumer Price Index for all Urban Consumers Research Series.[2]

The value of the minimum wage also has declined relative to the earnings of other wage earners. In 1968, the minimum wage was equal to just over half (53 percent) of the average wage for production and non-supervisory workers. In 2013, the minimum wage had fallen to just over a third (36 percent) of the average wage. (See Figure 1.)

The Fair Minimum Wage Act sets the minimum wage at a level that will help workers and their families, be good for the economy, and is consistent with past levels of the minimum wage. If the minimum wage had been indexed to inflation starting in 1968, it would currently be $9.39. And if the minimum wage were indexed to be 50 percent of the average wage, roughly where it was in 1968, it would currently be $10.08. In inflation-adjusted dollars, by 2016 when the Fair Minimum Wage Act would be fully implemented, the minimum wage would equal about $9.45 in today's dollars, consistent with past values.[3] (See Figure 1.)

Figure 1: Real Value of the Minimum Wage, 1968 to 2013



Source: Author's calculations using data from the Department of Labor

This proposed increase in the minimum wage is consistent with what the economy can provide. While the minimum wage has lost value in inflation-adjusted dollars, the overall economy has grown considerably. Between 1968 and 2013, U.S. gross domestic product grew by an inflation-adjusted 245 percent, to $15.8 trillion from $4.6 trillion while the inflation-adjusted value of the minimum wage fell by 23 percent over the same period. Or consider another means of comparison, from 1968 to 2012, the average pre-tax, pre-transfer income of the top 1 percent of households grew by 187 percent.[4] In contrast, over the course of those same years, the share of U.S. families living under the poverty line has risen from 10 percent to 11.8 percent.[5]

Even after the increase proposed in this law, the Federal minimum wage will remain a floor. Individual States and municipalities have minimum wages above the Federal minimum of $7.25. Twenty-one States and the District of Columbia have higher minimum wages, with the State of Washington having the highest in the country at $9.32 per hour.[6] We have learned from these experiences of these States that raising the minimum wage overall delivers positive results in the fight against poverty and efforts to grow the middle class from the bottom up.[7]

EARNINGS OF MINIMUM-WAGE WORKERS AND POVERTY THRESHOLDS

Raising the minimum wage is an important anti-poverty tool, but the current minimum wage leaves too many families in poverty. Earning the current Federal minimum wage, a minimum-wage earner working 40 hours a week every week of the year would earn $15,080 over the year. This amount of earnings puts a single adult just barely above poverty. But if that worker has to support any other people—such as a child—then this family would be living below the U.S. poverty threshold. The poverty line for a family with one non-elderly adult and one child was $16,057 in 2013.[8] Therefore, a full-time minimum-wage earner with one child and no spouse would come up short by $977 each year.

Increasing the minimum wage to $10.10 by 2016, which would equal $9.45 in 2013 dollars, would boost the earnings of low-wage workers and reduce poverty. At that minimum wage, a full-time, full-year worker would earn $19,656 in 2013 dollars over the course of the year, assuming they never take a day off without pay, and be able to support two children as a single earner and be above the official poverty threshold.

Nearly a quarter (23 percent) of the workers who will benefit from the Fair Minimum Wage Act currently live in a family earning less than $20,000 in a year, just above the poverty threshold of $18,769 for a family of one adult and two children. Just under 52 percent of workers who will benefit live in a family making below $40,000 a year, which is closer to what many surveys show is what people believe is a basic standard of living for a family of four.[9]

Economists have also explored what the likely effects of raising the minimum wage would be on poverty. Economist Arindrajit Dube, from the University of Massachusetts, Amherst, estimates that a 10 percent increase in the minimum wage would immediately decrease the poverty rate by 2.4 percent and lead to an overall

reduction of 3.6 percent in the longer run.[10] According to his estimates, which in my view are empirically sound and conform with the economics literature, the Fair Minimum Wage Act will reduce the poverty rate for non-elderly Americans from 17.5 percent to 15.8 percent. On a longer timeframe, past 1 year after the minimum wage increase, the rate would decrease to 15 percent, according to Dube.[11]

In more concrete numbers, the increase would translate to around 4.6 million Americans no longer in poverty (or around 6.8 million if longer term effects are accounted for). Another way to contextualize these numbers is to note that the poverty rate for the non-elderly increased by as much as 3.4 percentage points during the Great Recession. So the proposed minimum wage increase could reverse about half of that increase. Other recent research shows that an increase in the minimum wage would reduce spending on anti-poverty programs like the Supplemental Nutrition Assistance Program.[12]

MAKING WORK PAY

The anti-poverty effects of the minimum wage are significant, but to pull workers and their families up and out of poverty, the minimum wage must work in tandem with income support policies. One of the most important policy interactions is with the Earned Income Tax Credit. The EITC is a refundable tax credit for low-income families that is larger for those with more dependent children. The EITC is an effective anti-poverty policy that lifts millions of Americans out of poverty. In 2012, the EITC lifted 6.5 million people out of poverty, according to the Center Budget and Policy Priorities.[13]

For example, the minimum wage and the EITC are designed to work together. As economists David Lee, of Princeton University and Emmanuel Saez of University of California, Berkeley, argue the optimal minimum wage should be paired with a wage subsidy, such as the EITC.[14] This wage subsidy encourages workers to enter the labor force and the minimum wage helps ensures they receive an adequate wage to escape poverty. Looking at the data, we can see how the minimum wage and the EITC work together to pull families out of poverty. At the current minimum-wage level, a single earner (full-time, full-year) with two dependents would receive $5,372 from the EITC for a total after-Federal income of $20,452 (although workers may need to pay State income taxes and will owe payroll taxes). With a minimum wage of $9.45 in 2013 dollars, a single earner would see a $4,920 boost from the EITC for a total after-Federal income tax of $24,576.

A major concern with the EITC, however, is that it is a subsidy to employers who pay very low wages. According to UC-Berkeley economist Jesse Rothstein's estimates, employers capture 27 percent of the value of the EITC. The EITC induces more workers into the labor market and makes it easier for them to take lower wages, since they can get the EITC subsidy. Part of this result is because EITC-eligible workers who can afford a lower wage compete against non-eligible workers. The result is that employers get labor at a cheaper rate than they would otherwise.

One very important reason to focus on raising the minimum wage is that a higher minimum wage reduces this capture by reducing the reduction in wages caused by the increase in the supply of labor. Making more workers eligible for the EITC would also help benefit workers. The end result is both greater employment and more of the EITC subsidy going to the intended recipients, low-wage workers and their families.

Low-wage workers are eligible for a variety of benefits aimed at boosting incomes or helping them afford basics, such as housing, health care, or childcare. This is important since many basics, especially health care, childcare, and housing, are too expensive at market rates for low-income workers and their families. Childcare alone can eat up a large portion of a minimum wage workers' income. It is imperative that these programs work in tandem and that Congress—and State policymakers—consider the interaction effects of changing any of these policies. In many cases, the States set the rules for program eligibility, with some guidelines from the Federal Government, so engaging them in this conversation is a must.

In the mid-1990s when Congress implemented welfare reform, Congress did a very good job putting all these pieces together by looking at the benefits and income supports for low-wage workers and their families as a package. Within a short span of time, Congress implemented welfare reform, while also raising the minimum wage, expanding the EITC, expanding access to children's health through the State Children's Health Insurance Program, and expanding childcare subsidies. Only by putting a full basket of policies together will low-wage workers be able to rise out of poverty and into the middle class. The minimum wage is a core piece of this puzzle, but it is not the only piece. (See Figure 2.)

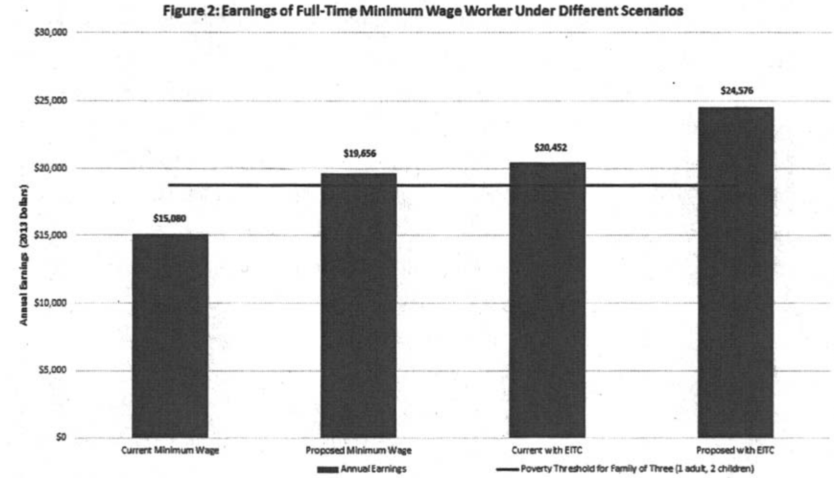


Figure 2: Earnings of Full-Time Minimum Wage Worker Under Different Scenarios

Sources: Author's calculations using data from the Bureau of Labor Statistics, the U.S. Census Bureau and Tax Foundation Tax Calculator

Congress could do more to ensure that minimum wage workers earn a fair day's pay by making sure that when they or their child gets sick they have the right to job-protected paid sick days, as proposed in the Healthy Families Act and is now the law in a number of municipalities and the State of Connecticut.[15] Further, most minimum wage workers do not have the right to vacation time or paid family and medical leave, making it difficult for them to care for their families while working full-time.

ECONOMIC EFFECTS OF RAISING THE MINIMUM WAGE

Raising the minimum wage is not only an effective anti-poverty tool but also a proven way to boost our economy more generally. The economics evidence shows that raising the minimum wage does not lead to higher unemployment overall but rather boosts productivity and addresses a growing issue in our economy of rising inequality.

Careful studies of the economics literature find that increases in the minimum wage have little to no effect on employment.[16] Economists David Card, of the University of California, Berkeley, and Alan Krueger, of Princeton University, looked at the effects of a minimum wage hike in New Jersey by comparing fast food restaurant employment in the State to fast food employment in Pennsylvania which did not increase its minimum wage.[17] Card and Krueger found that the increase in the minimum wage did not reduce employment. Their approach has been generalized in later research. Research by Arindrajit Dube, T. William Lester of the University of North Carolina—Chapel Hill, and Michael Reich of the University of California, Berkeley looked at all of the bordering counties that have different minimum wages between 1990 and 2006.[18] They too found that minimum wage did not have a significant effect on employment.

One reason that employment has not been shown to fall due to raising the minimum wage is because higher wages can make workers more productive and therefore more valuable to their employer. Economists call this the "efficiency wages" theory.[19] There is an extensive literature on efficiency wage theory, with notable contributions Nobel Laureates Joseph Stiglitz[20] and George Akerlof,[21] which suggest that paying more than the market-clearing wage can make firms more productive.

As the White House pointed out last week, higher wages can "boost productivity, increase morale, reduce costs, and improve efficiency." Here are just two academic studies that prove these points. John Schmitt, a Senior Economist at the Center for Economic and Policy Research, finds empirical economics research suggesting efficiency gains.[22] And in a 2011 study, Georgia State University economists Barry Hirsch and Bruce Kaufman, along with Tetyana Zelenska from Innovations for Poverty Action, examined the effect of a Federal increase in the minimum wage on 81 restaurants in Georgia and Alabama.[23] In their survey, managers reported that they could identify possible non-wage savings and productivity improvements in response

to the minimum-wage regulations. It is possible that lower costs stemming from these changes could outweigh the costs of paying a higher minimum wage.

In addition, it's possible that a higher minimum wage could make staying in one's job more attractive and thus reduce turnover costs. A 2013 working paper by UMass-Amherst economist Arindrajit Dube, University of North Carolina, Chapel Hill economist William Lester, and UC-Berkeley economist Michael Reich finds that a higher minimum wage leads to fewer so called "hires and separations," or worker turnover.[24] Other empirical studies suggesting that a higher minimum wage—or a "living wage" covering basic needs—can reduce labor turnover include studies of workers in San Francisco[25] (including airport[26] and homecare workers[27]) and Los Angeles.[28] Lower turnover costs could potentially allow businesses to overcome the increased cost of paying a higher wage.

Finally, the level of the minimum wage has a considerable effect on the distribution of wages in the United States. As mentioned above, the minimum wage used to be much closer to the average wage. But since 1968, the average wage grew as the purchasing power of the minimum wage declined by 23 percent. At the same time, the distance between wage earner at the 10th percentile and median wage earner, or the earner at the 50th percentile, grew by 18 percent from 1979 to 2009.[29]

Economists have found that the declining inflation-adjusted value of the minimum wage had a considerable effect on wage inequality for those workers in the bottom half of the wage distribution. A 1996 paper by economists John DiNardo, of the University of Michigan, Nicole Fortin, of the University of British Columbia, and Thomas Lemieux, also of the University of British Columbia, found that the decrease in the minimum wage from 1979 to 1988 had a considerable effect on the wage distribution.[30] They found the decline over that time could explain up to 25 percent of the change in the standard deviation in the logarithm of male wages and up to 30 percent for female wages. In plain English, this means the decline in the minimum wage explained up to a fourth of increasing wage inequality for men and up to three-tenths of increase wage inequality for women.

In more recent work, MIT economist David Autor, London School of Economics economist Alan Manning, and Federal Reserve Board economist Christopher Smith find that about 75 percent of the increase in low-end inequality from 1979 to 1991 is due to the decline in the value of the minimum wage, but the decline only explains 45 percent of the increase from 1979 to 2009.

While the literature has not come to an agreement on the exact size of the effect, the decline of the minimum wage was a significant factor in the increase in inequality for lower half of the income distribution.

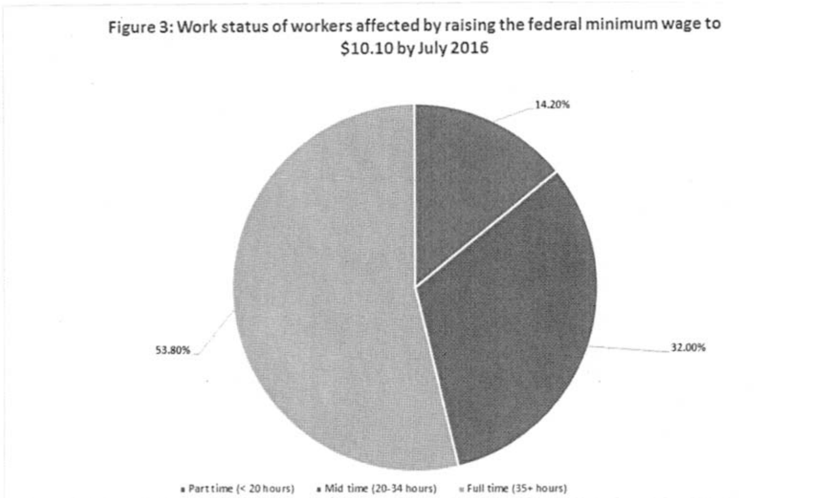
Who would be affected by a minimum wage increase to $10.10?

According to calculations from the Economic Policy Institute, approximately 28 million workers would see a raise if the minimum wage were raised to $10.10 by July 2016.[31] The affected workers would include not only those making under $10.10 an hour, all of whom would see their wages directly increased, but also those earning just above $10.10. Due to a spillover effect, these workers would see their wages indirectly increased as employers try to maintain the previous relative status of workers in their firms.

The majority of affected workers, those directly and indirectly affected, would be women. Fifty-five percent of the affected workers would be women. For context, women represent 49.2 percent of total employment.

One invalid criticism of the minimum wage as an antipoverty tool is that the minimum wage would primarily benefit teenagers who are working part-time and are supported by their parents. The data, however, do not bear this story out. Contrary to stereotypes of minimum wage workers, 88 percent of affected workers would be adults. A plurality of affected workers, 36.5 percent, would be between the ages of 20 and 29. In fact, the average age of affected workers would be 35 years old.[32]

And the minimum wage increase would not flow mostly to part-time workers. Fifty-three percent of affected workers would work full-time, defined as at least 35 hours a week. And research finds that minimum wage hikes do not result in significant decreases in working hours.[33] (See Figure 3.)



Source: David Cooper, "Raising the Federal Minimum Wage to $10.10 Would Lift Wages for Millions and Provide a Modest Economic Boost" (Washington: Economic Policy Institute, 2013)

Then there are tipped workers, who earn a subminimum wage. They are similar to those who earn the minimum wage as they also are less-educated, younger, and more likely to be female than the rest of the workforce.[34] The Harkin-Miller legislation would raise the tipped minimum wage to 70 percent of the regular minimum wage. This increase would give tipped workers a considerable raise from the current tipped minimum wage of $2.13.

The families of minimum wage earners are also dependent upon the earnings of those workers. On average, the earnings of minimum wage earners are 50 percent of their family's incomes.[35]

COMMENTS ON CBO'S MINIMUM WAGE REPORT

Overall, the report by the Congressional Budget Office on the proposed minimum wage increases is well done.[36] And that's not a shock considering that it is written by the Congressional Budget Office. Their work is always high quality and a valuable contribution to the policy debate. Yet my reading of the economics literature on the minimum wage leads me to differ with CBO's conclusions. Overall, their report overstates the cost and understates the benefits of increasing the minimum wage, as demonstrated by my written testimony today.[37]

While CBO describes some of its thinking in its selection of employment elasticities from the economics literature, their methodology is relatively vague. They state they favor studies that use a methodology that finds small to no employment effects of modest increases in the minimum wage. They consider publication bias in academic journals that would result in the publication of fewer studies that find no effect. But their preferred elasticities appear to be about halfway between the elasticities found by their stated favored methodology and more negative estimates.[38]

COSTS

In several ways, the CBO report overstates the costs of raising the minimum wage with regards to employment. First of all, the report overstates the willingness of employers to substitute workers for capital. Minimum wage jobs are concentrated in industries and occupations where substitution is unlikely. You can't replace a janitor with a Roomba.

The authors also don't account for possible productivity gains from raising the minimum wage. Increased productivity increases wages, but higher wages can boost productivity. Workers who are better paid may become more productive according to the "efficiency wage theory." About 90 percent of interviewed fast food managers, for example, said a minimum wage increase would spur them to help improve the productivity of workers.[39] Worker productivity could also be boosted by reduced turnover due to a minimum wage increase.[40] As workers stay on the job longer they become more familiar with work tasks and therefore more productive.

Finally and perhaps most importantly, the CBO report also doesn't appear to account for the fact that the most price sensitive consumers are also the workers receiving the largest wage gains from an increase in the minimum wage. The low-wage workers who often have the hardest time dealing with price increases would be the ones receiving wage increases. The net effect of a minimum wage increase would be a gain for these workers.

BENEFITS

The CBO report finds that raising the minimum wage to $10.10 would reduce poverty by 900,000 people. Obviously a reduction in poverty is a good thing, but the report's estimates are almost certainly on the low end of estimates. To calculate the effect of raising the minimum wage on family incomes, CBO uses a simulation to compare wages and incomes after a minimum wage increase to a world where the standard isn't raised.

This method isn't incorrect. But other methods, specifically using historical data, find a much larger reduction in poverty. Simulation methods require assumptions about specific phenomena—like the spillover effect of raising the minimum wage—to be accurate and that there are no measurement errors in the underlying data. A review of the existing literature by University of Massachusetts—Amherst economist Arindrajit Dube on the relationship between the minimum wage and poverty found that the vast majority of the literature finds a negative relationship.[41] On average, these studies find a 10-percent increase in the minimum wage reduces the poverty rate by 1.5 percent. Using this conservative elasticity, raising the minimum wage to $10.10 would help raise 2.4 million non-elderly Americans out of poverty. Under Dube's preferred elasticity, the increase in the minimum wage would decrease poverty by 4.6 million non-elderly Americans in the short-term and 6.8 million in the longer term.

CONCLUSION

The minimum wage is not a silver bullet in the fight against poverty. But any effort to reduce poverty and increase economic mobility at the bottom rungs of the income ladder into the middle class needs to include an increase in the minimum wage. The weight of economic research shows that raising the minimum wage would reduce poverty and work in tandem with other poverty-reducing programs to promote income mobility from the bottom up. In the largest economy on the planet, we need to work harder to reduce poverty. Increasing the minimum wage needs to be part of that effort.

ENDNOTES

1. U.S. Department of Labor, "History of Federal Minimum Wage Rates Under the Fair Labor Standards Act, 1938–2009," *United States Department of Labor—Wage and Hour Division (WHD)*, accessed July 10, 2013, *http://www.dol.gov/whd/minwage/chart.htm*.

2. For all inflation-adjusted figures I use the Consumer Price Index for all Urban Consumers Research Series. The research series version of the CPI uses current methods to calculate the inflation figures in the past to make sure the series is consistent over a long period of time. If the Consumer Price Index for all Urban Consumers is used instead, the minimum wage falls by 32 percent from its peak in 1968 and the value of the minimum wage would have been $10.71 in 2013.

3. For this projection, I assume that inflation over the next 3 years will average 2.25 percent, its average rate for the preceding 3 years.

4. Thomas Piketty and Emmanuel Saez, "Income Inequality in the United States, 1913–98," *The Quarterly Journal of Economics* 118, no. 1 (February 2003): 1–39.

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7. Arindrajit Dube, *Minimum Wages and the Distribution of Family Incomes*, Working Paper (Amherst, MA, December 30, 2013), *https://dl.dropboxusercontent.com/u/15038936/Dube__MinimumWagesFamilyIncomes.pdf*.

8. U.S. Census Bureau, "Poverty Thresholds," January 31, 2014, *https://www.census.gov/hhes/www/poverty/data/threshld/index.html*.

9. David Cooper, *Raising the Federal Minimum Wage to $10.10 Would Lift Wages for Millions and Provide a Modest Economic Boost*, Briefing Paper (Washington, DC: Economic Policy Institute, December 19, 2013), *http://www.epi.org/publication/*

raising-Federal-minimum-wage-to–1010/. Shawn Fremstad, "Raising Minimum Wage to $9 Not Enough to Ensure That Families with Full-time Workers Live Above Poverty Line" (Washington, DC: Center for Economic and Policy Research, February 14, 2013), available at: *http://www.cepr.net:8080/index.php/blogs/cepr-blog/raising-minimum-wage-to–9-not-enough-to-ensure-that-families-with-fulltime-workers-live-above-poverty-line;* Economic Policy Institute, "Family Budget Calculator" available at: *http://www.epi.org/resources/budget/*.

10. Dube, *Minimum Wages and the Distribution of Family Incomes*. In Dube's review of the academic literature, he found that a simple "average of averages" of the findings of 54 studies suggests that a 10 percent increase in the minimum wage would result in a 1.5 percent decrease in the poverty rate. Yet, he argues that this is too low due to several flaws in the existing literature. Depending on the empirical specification, Dube's own estimates find that the effect of raising the minimum wage would reduce poverty by anywhere from 1.2 percent to 3.7 percent.

11. Ibid.

12. Rachel West and Michael Reich, *The Effects of Minimum Wages on SNAP Enrollments and Expenditures* (Washington, DC: Center for American Progress, March 5, 2014), *http://www.americanprogress.org/issues/economy/report/2014/03/05/85158/the-effects-of-minimum-wages-on-snap-enrollments-and-expenditures/*.

13. Center on Budget and Policy Priorities, *The Earned Income Tax Credit* (Washington, DC: Center on Budget and Policy Priorities, January 30, 2014), *http://www.cbpp.org/cms/?fa=view&id=2505*.

14. David Lee and Emmanuel Saez, "Optimal Minimum Wage Policy in Competitive Labor Markets," *Journal of Public Economics* 96, no. 9–10 (October 2012): 739–49, doi:10.1016/j.jpubeco.2012.06.001.

15. See: Heather Boushey, John Schmitt, and Jane Farrell, *Job Protection Isn't Enough: Why America Needs Paid Parental Leave* (Washington, DC: Center for American Progress, December 2013). Places that have paid sick days laws are: San Francisco as of 2007; Washington, DC, as of 2008; Connecticut and Seattle as of 2011; and New York City and Portland, OR, as of 2012; Jersey City, NJ in 2013; and Newark, NJ in 2014. National Partnership for Women and Families, "State and Local Action on Paid Sick Days" (2012), available at: *http://paidsickdays.nationalpartnership.org/site/DocServer/NP_PSD_Tracking_Doc.pdf?docID=1922*; The Associated Press, "Bill Requiring Sick Leave Is Approved in Jersey City," (*New York Times*, September 26, 2013) available at: *www.nytimes.com/2013/09/27/nyregion/jersey-city-council-approves-paid-sick-leave.html*; Jennifer Ludden, "Paid Leave Laws Catch On Across the Nation," (*National Public Radio*, January 28, 2014) available at: *http://www.npr.org/2014/01/28/267488576/more-states-offer-paid-leave*. Voters in Milwaukee passed an earned sick time ballot initiative in 2008, but in 2011 the ordinance was nullified by a bill that created uniform family and medical leave standards in Wisconsin. Joanne Deschenaux, "Wisconsin Governor Signs Bill Nullifying Milwaukee Paid Sick Leave Ordinance," (*Society for Human Research Management*) available at: *http://www.shrm.org/legalissues/stateandlocalresources/pages/wisconsingovernorsignsbillnullifying.aspx*. And the Philadelphia city council passed earned sick time legislation in 2011 that was vetoed by the mayor, although an earned sick time provision was included and enacted in a later living wage bill that applies to city contractors. *Philadelphia 21st Century Minimum Wage Standard*, No. 110557, (2011); National Partnership for Women and Families, "State and Local Action on Paid Sick Days" (National Partnership for Women and Families, 2013 available at: *http://paidsickdays.nationalpartnership.org/site/DocServer/NP_PSD_Tracking_Doc.pdf?docID=1922*.

16. John Schmitt, *Why Does the Minimum Wage Have No Discernible Effect on Employment?* (Washington, DC: Center for Economic and Policy Research, February 2013), *http://www.cepr.net/index.php/publications/reports/why-does-the-minimum-wage-have-no-discernible-effect-on-employment*; Hristos Doucouliagos and T. D. Stanley, "Publication Selection Bias in Minimum-Wage Research? A Meta-Regression Analysis," *British Journal of Industrial Relations* 47, no. 2 (2009): 406–28, doi:10.1111/j.1467–8543.2009.00723.x.

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5575693; Barry T. Hirsch, Bruce E. Kuafman, and Tetyana Zelenska, *Minimum Wage Channels of Adjustment,* Discussion Paper, IZA Discussion Paper (Bonn, Germany: Institute for the Study of Labor, November 2011), *http://www2.gsu.edu/~ecobth/IZA__HKZ__MinWageCoA__dp6132.pdf*.

20. Joseph E. Stiglitz, *Theories of Wage Rigidity*, Working Paper (Cambridge, MA: National Bureau of Economic Research, 1984), *http://www.nber.org/papers/w1442.pdf*.

21. George A. Akerlof, "Labor Contracts as Partial Gift Exchange," *The Quarterly Journal of Economics* 97, no. 4 (November 1982): 543, doi:10.2307/1885099.

22. Schmitt, *Why Does the Minimum Wage Have No Discernible Effect on Employment?*.

23. Hirsch, Kuafman, and Zelenska, *Minimum Wage Channels of Adjustment*.

24. Arindrajit Dube, T. William Lester, and Michael Reich, *Minimum Wage Shocks, Employment Flows and Labor Market Frictions* (Amherst, MA, 2013), *http://www.irle.berkeley.edu/workingpapers/149-13.pdf*.

25. Arindrajit Dube, Suresh Naidu, and Michael Reich, "The Economic Effects of a Citywide Minimum Wage," *Industrial and Labor Relations Review* 60 (2007): 522–43.

26. Michael Reich, Peter Hall, and Ken Jacobs, "Living Wage Policies at the San Francisco Airport: Impacts on Workers and Businesses," *Industrial Relations: A Journal of Economy and Society* 44, no. 1 (2005): 106–38, doi:10.1111/j.0019–8676.2004.00375.x.

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28. David Fairris, "The Impact of Living Wages on Employers: A Control Group Analysis of the Los Angeles Ordinance," *Industrial Relations* 44, no. 1 (January 2005): 84–105, *http://papers.ssrn.com/sol3/papers.cfm?abstract__id=639757*.

29. Author's analysis using data from David H. Autor, Alan Manning, and Christopher L. Smith, *The Contribution of the Minimum Wage to U.S. Wage Inequality Over Three Decades: A Reassessment*, Working Paper (Cambridge, MA: National Bureau of Economic Research, November 2010), *http://www.nber.org/papers/w16533*.

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31. Cooper, *Raising the Federal Minimum Wage to $10.10 Would Lift Wages for Millions and Provide a Modest Economic Boost*.

32. Ibid.

33. Dube, Lester, and Reich, "Minimum Wage Effects Across State Borders."

34. Sylvia Allegretto and Kai Filion, *Waiting for Change: The $2.13 Federal Subminimum Wage, Briefing Paper* (Washington, DC: Economic Policy Institute and Center on Wage and Employment Dynamics, February 23, 2011), *http://www.epi.org/publication/waiting__for__change__the__213__federal__subminimum__wage/*.

35. Cooper, *Raising the Federal Minimum Wage to $10.10 Would Lift Wages for Millions and Provide a Modest Economic Boost*.

36. Congressional Budget Office, "The Effects of a Minimum-Wage Increase on Employment and Family Income," (Washington, DC: Congressional Budget Office, 2014), *http://www.cbo.gov/publication/44995.*

37. CBO's figures differ with mine in several places because they use the price index for Personal Consumption Expenditures instead of the CPI-U Research Series that I use in my calculations in this testimony. The PCE is a chain-weighted price index calculated by the Bureau of Economic Analysis that shows a slower rate of inflation than the CPI–U–RS series. Using the PCE, the minimum wage had a purchasing power of $6.76 in today's dollars in 1973. Using the CPI–U–RS, that figure would be $7.50. I believe the CPI–U–RS to be a better measure to use in this case because the PCE was not originally designed as a deflator of cash income and includes prices not directly faced by consumers. *See* Dean Baker, "Deflators and the Purchasing Power of the Minimum Wage," CEPR Blog, available at *http://www.cepr.net/index.php/blogs/cepr-blog/deflators-and-the-purchasing-power-of-the-minimum-wage.*

38. Michael Reich, "The Troubling Fine Print In The Claim That Raising the Minimum Wage Will Cost Jobs," ThinkProgress, available at *http://thinkprogress.org/economy/2014/02/19/3307661/cbo-minimum-wage-methodology/*.

39. Hirsch, Kuafman, and Zelenska, *Minimum Wage Channels of Adjustment*.

40. Dube, Lester, and Reich, *Minimum Wage Shocks, Employment Flows and Labor Market Frictions*.

41. Dube, *Minimum Wages and the Distribution of Family Incomes*.

The CHAIRMAN. Thank you very much, Dr. Boushey.

Sister Campbell.

STATEMENT OF SISTER SIMONE CAMPBELL, EXECUTIVE DIRECTOR, NETWORK, WASHINGTON, DC

Sister CAMPBELL. Thank you so much, Mr. Chairman, Senator Alexander and Senators.

I am Sister Simone Campbell, the executive director of NETWORK, a national Catholic social justice lobby, and we for 42 years have worked with people at the margins to bring their voices right here to Capitol Hill to help policy be shaped by their lived reality.

It is, as our Pope Francis recently said, that as long as the problems of the poor are not radically resolved by rejecting the absolute autonomy of markets and financial speculation and by attacking the structural causes of inequality, no solution will be found for the world's problems or, for that matter, to any problems. Inequality, he said, is the root of social ills.

One of the reasons for this growing income inequality in our Nation is the stagnation of wages, as evidenced by the minimum wage. Progressives, moderates, conservatives, religious people, nonreligious people, in fact, I imagine 100 percent of us agree that employment is a key element in helping people know their dignity, care for their families, and buildup community. Work should pay. Yet, while we share this consciousness on the meaning of work, we as a Nation have not been providing wages to a large percentage of our people sufficient to realize this goal.

Others have spoken of the economic reality, but let me just introduce a few people who are key in understanding what is going on. In Milwaukee, WI, I met Billy and his wife who are both working for minimum wage, supporting themselves and their two children. They were putting their salaries together to pay rent in a tight housing market. They were using SNAP benefits during the day to feed the boys, including a 14-year-old with a voracious appetite, and going to St. Benedict the Moor dining room for a free meal each night. Billy told me that his dream was to be able to save up enough money to buy his kids a set of new school clothes just once, but he had never been able to do it because money was so tight with his low-wage job. The kids always had hand-me-downs. Raising the minimum wage would give Billy and his wife much-needed resources to support themselves and their children.

In Missouri, I met Theresa who was returning to the workforce after her husband's unexpected death and 28 years of marriage. She was working just above minimum wage as a receptionist trying to make ends meet. Her youngest daughter, an adult, was still living with her while finishing college, but they were having a very difficult time. Theresa was scrambling to find her economic footing. Raising the minimum wage would help her and millions of others working just above minimum wage, not to mention the estimated 55 percent of minimum wage workers who are women, to have the minimum they need to live in dignity.

These are but two stories of hardworking people in our country who are barely scraping by. It is a struggle to raise your family on subsistence wages. But there is another aspect to this.

In San Diego in February, I met Jason, a business owner, who had as an ethical decision decided to pay his workers more than minimum wage. He was paying above $10.10 an hour to his lowest paid workers and was providing health benefits. He said he did this as an ethical stance and he found it a good investment in his people, but it annoyed him that many business owners, his competitors that he knows, lament Government spending on the safety net, while they themselves pay their workers so little that their workers must rely on Government benefits to survive. This business owner said that it did not seem right to him to have Government subsidizing the business of his competitors while he was doing the fair and ethical thing.

Now, do not get me wrong. He was not for the elimination of these critical programs. Rather, he believed that employers should be responsible for paying the true cost of their businesses and by paying their workers a living wage. He told me that by paying an ethical wage, he had lower turnover in employment, as well as greater productivity and employee loyalty. He understands that wages are not just a cost of business, but an investment. Paying a just wage is not only the right thing to do. It is good for business.

So from our perspective, raising the minimum wage would finally allow workers to benefit from their increase in productivity over the years. It would reduce the demand on the social safety net by making sure that work pays. It would stimulate the economy by putting money in the hands of people with pent-up demand. It would support conservative, moderate, and progressive views that the dignity of people is realized when all can contribute to their own support. Increasing the minimum wage would allow working parents to realize simple dreams of providing for their children. Raising the minimum wage is the ethical way forward.

In the richest nation on earth, it is incumbent on us to ensure justice for all who labor in our society. Raising the minimum wage is one important way forward.

While I urge this action from my faith perspective, it is also in keeping with our constitutional call to form a more perfect union. Raising the minimum wage is a key step forward to serve the common good and promote the general welfare of these United States.

Thank you, Mr. Chairman.

[The prepared statement of Sister Campbell follows:]

PREPARED STATEMENT OF SISTER SIMONE CAMPBELL, SSS

SUMMARY

Catholic popes have consistently supported just wages since 1891's *Rerum Novarum*, including acknowledging the crucial role of the State in ensuring wages are just.

Recent U.S. history indicates stagnant wages, increasing worker productivity, and a shift of wealth to the top are working together to increase income and wealth disparities in our society. This is a moral issue we can address in part by raising the Federal minimum wage.

People across political and religious spectrums want the dignity of work to be recognized. Raising the minimum wage and ensuring that wage can provide a stable living for a full-time worker is a start.

This is truly an issue of supporting families. Minimum wage workers are, on average, 35 years old; 55 percent are women; 27 percent have children; more than half work full-time; and, on average, they earn 50 percent of their family's total income. Nearly one in five children in this country has at least one parent who would receive a raise if Congress increased the Federal minimum wage.

I have met struggling minimum wage earners in Wisconsin, Missouri and other parts of our Nation representing millions of workers across the country: they rely on government assistance to make ends meet, but who want to support themselves and their families without the constant anxiety of not having enough.

I met a business owner in California who pays all his employees at least $10.10 an hour because he believes it is right that owners pay wages that do not force employees to take government aid. He sees higher employee retention, productivity, and loyalty. He understands that wages are not just a business cost, but an investment—it is not only the right thing to do, it's good for business.

Raising the minimum wage is a critical part of getting our anti-poverty programs functioning as they are supposed to. Stagnant wages and rising income inequality mean work is no longer the opportunity to escape poverty these programs promise. The decline in real wages for the lowest earning quintile of workers, for example, reduced the annual exit rate from poverty by 15 percent between the early 1970s and the mid-1990s.

In the richest nation on earth, it is incumbent on us to ensure justice for all who labor in our society. Raising the minimum wage is one important step in the right direction.

While I urge this action from my perspective of faith, it is also in keeping with our Constitutional call to form the more perfect union. Raising the minimum wage is a key step forward to serve the common good and promote the general welfare.

Thank you for the invitation to testify today. I am Sister Simone Campbell, executive director of NETWORK, a National Catholic Social Justice Lobby, and the leader of Nuns on the Bus. Concerns about just wages and working families resonate deeply for me as a Catholic sister rooted in the Christian tradition.

Since 1891, the leaders of my Catholic faith have taught explicitly that:

> Before deciding whether wages are fair, many things have to be considered; but wealthy owners and all masters of labor should be mindful of this—that to exercise pressure upon the indigent and the destitute for the sake of gain, and to gather one's profit out of the need of another, is condemned by all laws, human and divine. {Pope Leo XIII, *Rerum Novarum* 20)

Recent history in the United States indicates that stagnant wages, increasing worker productivity, and a shift of wealth to the top are working together to increase income and wealth disparities in our society.[1] This, in my view, is a moral issue that needs to be addressed.

In November 2013, Pope Francis wrote:

> The need to resolve the structural causes of poverty cannot be delayed, not only for the pragmatic reason of its urgency for the good order of society, but because society needs to be cured of a sickness which is weakening and frustrating it, and which can only lead to new crises. Welfare projects, which meet certain urgent needs, should be considered merely temporary responses. As long as the problems of the poor are not radically resolved by rejecting the absolute autonomy of markets and financial speculation and by attacking the structural causes of inequality, no solution will be found for the world's problems or for that matter, to any problems. Inequality is the root of social ills. (Pope Francis, *Evangelii Gaudium* 202)

One key way to address the problem of structural inequality within our Nation is through increasing the national minimum wage.

Progressives, moderates, and conservatives—religious people and non-religious people—in fact, I imagine, 100 percent of us agree that employment is key for helping people know their dignity, care for their families, and buildup community. Pope Francis noted from our Catholic perspective,

> "Work is part of God's loving plan, we are called to cultivate and care for all the goods of creation and in this way share in the work of creation! Work is fundamental to the dignity of a person. Work, to use a metaphor, 'anoints' us with dignity, fills us with dignity, makes us similar to God, who has worked and still works, who always acts (cf. Jn 5:17); it gives one the ability to maintain oneself, one's family, to contribute to the growth of one's own nation."[2]

[1] Boushey, Heather and Adam Hersh. "Middle Class Series: The American Middle Class, Income Inequality, and the Strength of Our Economy." *Center for American Progress.* 17 May 2012. Web. 20 Feb. 2014.

[2] General Audience in Rome, May 1, 2013.

Yet, while we share this consensus on the meaning of work, we as a nation have not been providing wages to a large percentage of our people sufficient to realize this goal. Three million workers live in poverty despite working year-round, full-time jobs; a third of families with children living in poverty include a full-time worker; and nearly 60 percent of families living at 200 percent of the Federal poverty line—which includes a family of four trying to get by on less than $50,000 a year[3]—have at least one member of the household working.[4] Put another way, in 1968 the minimum wage was enough to keep a family of three out of poverty; into the early 1980s, the minimum wage was enough to keep a family of two out of poverty; but the minimum wage can no longer keep even a family of two above the poverty line.[5]

This demonstrates that work does not pay for many low-wage workers and it is not paying for their families. Workers who would get a raise if Congress increased the minimum wage earn, on average, half of their family's income. Think particularly of the benefit for children living in poverty: Nearly one in five children in this country has at least one parent who would receive a raise if Congress increased the Federal minimum wage.[6] Raising the minimum wage would make a significant difference for these struggling families.

In Milwaukee, WI, I met Billy and his wife who were both working at minimum wage, supporting themselves and their two children. They were putting their salaries together to pay rent in a tight housing market, using SNAP benefits during the day to feed their boys (including a 14-year-old with a voracious appetite), and going to St. Benedict the Moor dining room at night. Billy told me that his dream was to be able to save enough money to buy his kids a set of new school clothes just once. But he had never been able to do it with his low-wage job. The kids always had hand-me-downs. Raising the minimum wage would give Billy and his wife much-needed resources to support themselves and their children.

In Missouri, I met Theresa, who was returning to the workforce after her husband's unexpected death and 28 years of marriage. She was working just above minimum wage as a receptionist and trying to make ends meet. Her youngest daughter, an adult, was still living with her while finishing college, but they were having a very difficult time. Theresa was scrambling to find her economic footing. Raising the minimum wage would help her and millions of others working just above the minimum wage, not to mention the estimated 55 percent of minimum-wage workers who are women, have the minimum they need to live in dignity.[7]

Lucy Johnson (alias) knows her job about as well as anyone could. In 2012, she reported that she worked in the same Knoxville, TN garment-manufacturing plant for more than 25 years, during which time the operation has changed hands a few times. She makes military uniforms for a clothing company that has received more than $200 million in Federal contracts since 2002. She starts her shift at 7 a.m., hoping the assembly line won't slow down so she can make her production target and earn a little extra beyond minimum wage. But nowadays, that almost never happens. Earning $7.25, Lucy finds she barely has enough money to feed herself and keep her electricity and phone service on. She's grateful that several family members live with her now to pitch in. She says:

> My niece helps out with the utilities and food, and she gets food stamps and Tenncare [State-subsidized health insurance] for her children, which helps too. Back before she moved in, I'd just open up a can of soup and say to myself: Dinnertime! I'm lucky that my house is paid for, even if it is falling down around my ears.

Raising the minimum wage will greatly assist Lucy and others like her to be able to meet their basic necessities. After years of hard work, she should be able to live in dignity without the stress of basic survival.[8]

Ms. Jackie Valdes is 29-years-old, is married, and has a 2-year-old son named Mauricio. She has worked as a janitor at Union Station here in Washington for 8 years alongside her mother and her husband. Her husband works a second job a

[3] "2013 Federal Poverty Guidelines." *Families USA.* Web. 20 Feb. 2014.
[4] "Workers and Poverty." *Spotlight on Poverty and Opportunity: The Source for News, Ideas, and Action.* Web. 20. Feb. 2014.
[5] Cooper, David. "The Minimum Wage Used To Be Enough To Keep Workers Out Of Poverty—It's Not Anymore." *Economic Policy Institute*. 4 Dec. 2013. Web. 7 Feb. 2014.
[6] Cooper, David. "Raising the Federal Minimum Wage to $10.10 Would Lift Wages for Millions and Provide a Modest Economic Boost." *Economic Policy Institute.* 19 Dec. 2013. Web. 7 Feb. 2014.
[7] Ibid.
[8] Christman, Anastasia, Amy Masciola, Robert Masciola, Shelly Sperry, and Paul Sonn. "Taking the Low Road: How the Federal Government Promotes Poverty-Wage Jobs Through its Contracting Practices." *National Employment Law Project.* July 2013. Web. 6 Feb. 2013.

few miles away from their home. Jackie and her family live in a one-room apartment in DC. Because she and her husband work so many hours, they must pay for child care for little Mauricio. They often have trouble paying their rent and all of their bills. Jackie says, "I wish I could spend more time with my son, especially when he is little, but I have to work or we cannot eat and pay our rent." Raising the minimum wage would allow Jackie and her family to have more time together and ease the constant worry about being able to care for their family.[9]

These are but a few of the stories of hardworking people in our country who are barely scraping by on minimum wage. It is undeniably a struggle to raise a family on subsistence wages.

But there is another aspect to this. In San Diego last week, I spoke with a business owner who had decided to pay his workers more than the Federal minimum wage. He was paying above $10.10 an hour to his lowest-paid worker and was providing benefits. He said he did it as an ethical stance, but it annoyed him that many business owners he knows lament government spending while they pay their workers so little that those workers must rely on government benefits to survive. Their workers are using the Earned Income Tax Credit, SNAP benefits, and other subsidies. This business owner said that it did not seem right to have the government subsidizing their businesses.

Now don't get me wrong, he was not for the elimination of these critical programs; rather, he believed that employers should be responsible for paying the true cost of their business by paying their workers a living wage. He told me that by paying a just wage he had lower turnover in employment and greater productivity and employee loyalty. He understands that wages are not just a business cost, but an investment—paying a just wage is not only the right thing to do, it's good for business.

Not only do sub-poverty wages force businesses to rely on government subsidy, but they undermine the potential success of those very subsidies: raising the minimum wage is a critical part of getting our anti-poverty programs functioning as they are supposed to. Welfare programs are intended to create a path out of poverty, and welfare reform in the 1990s made work requirements a cornerstone of following that path. Unfortunately, stagnant wages and rising income inequality mean work is no longer the opportunity to escape poverty these programs promise.[10] The decline in real wages for the lowest earning quintile of workers, for example, reduced the annual exit rate from poverty by 15 percent between the early 1970s and the mid-1990s.[11]

Raising the minimum wage would finally allow workers to benefit from their increase in productivity. It would reduce demand on the social safety net by helping work pay. It would stimulate the economy by putting money in the hands of people with pent-up demand. It would support conservative, moderate, and progressive views that the dignity of people is realized when all can contribute to their own support. Increasing the minimum wage would allow working parents to realize simple dreams of providing for their children. It seems that it is the ethical and pragmatic way forward.

In short, I agree with Pope John Paul II's statement in his encyclical *Centesimus Annus*:

> [S]ociety and the State must ensure wage levels adequate for the maintenance of the worker and his family, including a certain amount for savings. This requires a continuous effort to improve workers' training and capability so that their work will be more skilled and productive, as well as careful controls and adequate legislative measures to block shameful forms of exploitation, especially to the disadvantage of the most vulnerable workers, of immigrants and of those on the margins of society. (15)

This is the role of minimum wage legislation and an important way forward.

Finally, I join with Pope Francis in saying, "I beg the Lord to grant us more politicians who are genuinely disturbed by the state of society, the people, and the lives of the poor!" (*Evangelii Gaudium* 205)

In the richest Nation on earth, it is incumbent on us to ensure justice for all who labor in our society. Raising the minimum wage is one important step in the right direction.

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[9] Ibid.

[10] "Labor Markets and Poverty." *UC Davis Center for Poverty Research.* Web. 7 Feb. 2014.

[11] Stevens, Ann Huff. "Transitions into & out of Poverty in the United States." *UC Davis Center for Poverty Research.* Web. 7 Feb. 2014.

While I urge this action from my perspective of faith, it is also in keeping with our Constitutional call to form the more perfect union. Raising the minimum wage is a key step forward to serve the common good and promote the general welfare.

The CHAIRMAN. Thank you very much, Sister. You left out one important statement. You said I join with Pope Francis in saying, "I beg the Lord to grant us more politicians who are generally disturbed by the state of society, the people, and the lives of the poor."

Sister CAMPBELL. That is true. Thank you.

The CHAIRMAN. My constituent, Ms. McCrary. It is good to meet you. I have not met you before. But welcome and I am glad you are here, and please tell us your story.

STATEMENT OF ALICIA McCRARY, FAST FOOD WORKER, NORTHWOOD, IA

Ms. MCCRARY. Good morning. I want to begin by thanking my Senator Harkin for the introduction and thanking the committee for allowing me to speak today.

I am Alicia. I am the mother of four boys, ages 11, a set of twins that are 10, and a 5-year-old. These boys are my priority. I am the only parent in their lives right now, and I am responsible for their emotional, spiritual, physical and mental development. It is a big job and I love them so much.

We came to Iowa almost 2 years ago. I was in a shelter in Illinois after leaving a domestically violent relationship. My family needed to get a safe place, and it ended up being Iowa. I am so grateful.

One of the organizations that I began working with, once I got settled, was North Iowa Community Action. I enrolled in a family development and self-sufficiency program. We called it FaDSS. This program is about helping me get off the system and become self-sufficient, which is exactly what I want to do. I would prefer to get my money from a paycheck instead of from the system.

I work usually around 20 to 25 hours a week in the fast food industry. My job requires me to be quick, efficient, and do what needs to be done, cooking, taking orders, cleaning. I do it all, and it is hard work. I have been at my current job just 1 year. I started at $7.25 an hour, and this month, after my year anniversary, I got an increase to $7.65 an hour. With this raise, came a slight increase in my rent, as we live in subsidized housing, a cut in my food assistance, and in TANF. I earn about $450 a month from my job, receive $256 in TANF, and about $240 in food assistance, not even enough when raising growing boys and hungry boys. My fixed expenses like rent, utilities, and bus cost almost $600 a month. So you can see how tight my budget is.

I have to make many hard choices every month. The boys are like most kids. They want to fit in with their friends and classmates. They want to participate in activities like sports and band. One year, someone will get to play football. It is $75. Another two participate in basketball, which is $18. My oldest son does get to be in band, and he plays the drums because that is the cheapest sport and it is like $5. So that is OK. I have to pay $20 per child so they can bring home their computers to do homework. We do not have one at home, so this choice is the only one I can make.

I did get the Earned Income Tax Credit last year. I had about $700. I used those dollars to buy school clothes for the boys. So I

have to guess about how much they would grow from March to August for this next following school year. Even with that help, I struggle with ongoing expenses.

For example, last month, the school had a ski trip planned for the students, and my oldest son really, really wanted to go. But in order to do that, I would have to not pay a bill or any of the bills. So I had to tell him no again. It hurts so bad to keep saying no and they do not understand. They ask me why is there not enough money? You work. You work really hard. I do not have a very good answer to tell them other than I do not get paid enough. They can never all get a haircut in the same month, and definitely you cannot buy shoes or clothes for them all at the same time. I make promises that if you are not the lucky one this time, I will get you next time.

Another decision I have made is that I do not own a vehicle. I rely upon county transit to get me to and from work. I get on the bus at 6:40 in the morning and ride it home after I get off work at 2:30. At this point, I cannot work any additional hours due to the limited transportation, but it is the only choice I have.

If the minimum wage is increased to $10.10 per hour and increases with the cost of living, it will be very helpful to my family. I will see more reductions in TANF and food assistance and will see another increase in my rent, but that would be OK. I will have more money overall, and it would come from my own hard work and my family will be better off. These programs are supposed to be temporary, not permanent. I want to work and stand on my own two feet. As I said before, I work very hard doing my job, and I believe I am worth $10.10 an hour.

Earning additional income from a $10.10 hourly wage will not solve all my budget problems, but it would be very, very helpful. I could do better at paying my bills on time. I would love to save $20 a week and maybe, just maybe, the boys could all play football at the same time, get haircuts at the same time. That would be so wonderful.

I hope someday I will be able to work more hours and earn more money so I can continue to improve my life and help my boys grow up to be healthy, happy young men. If you can move forward with increasing the minimum wage, my family will be more successful in reaching our goal of a better life.

Thank you for listening to my story. I appreciate this opportunity to share my life in hopes that you will understand how important this issue is for me, my coworkers, and thousands of other families in similar situations. Thank you.

The CHAIRMAN. Thank you very much, Ms. McCrary, for putting a human face on this whole issue. We get tied up in this minutiae and this number and that number and this study and that study and who has the best study. It comes down to you and millions of people like you in this country.

I oftentimes wish sometimes Senators and Congressmen could just live for a few months like you live. We get $180,000 a year. We are in the top 5 percent of income earners in this country. This place is populated by people worth well over $1 million. I am not saying we do not sympathize, but sometimes it is good to walk in the shoes. We probably cannot do that, and that is why it is so im-

portant for us to have people like you here to tell what is really happening out there.

Now, you left, as I understand it, a domestic violence situation, took your kids, lived in a shelter for a while, came to Iowa. So I am happy that you are safe now. You have a safe environment and your kids have a safe home. But your story is one that pervades our society. Millions and millions of people around America are like you. They work hard. They get up at 5:30 a.m. to 6 a.m.. They have hard jobs. Gosh, I was in a Subway sandwich shop this weekend in Iowa. I was just watching the women. They are almost all women, working behind the counter. They never stopped. And they are making just barely above the minimum wage. But they are just working hard all the time. I sense that is what you are doing too. You are working hard.

Again, I just thank you for putting a human face on this issue. You can parse this thing about what study is best and what the incremental here and the increment there and dollars here and how many jobs. I do not know where the range is on jobs—and I think Senator Warren really succinctly encapsulated this in terms of the studies on how these studies—I wanted to talk to Dr. Boushey about that, but I am giving a speech and I am running out of time.

Even if there are 100,000 people that lose their jobs or 10,000 people lose their jobs because we raise the minimum wage, we have to answer that not with more welfare, but what do we do to get them their jobs. Are we going to penalize millions of Americans like you, not just those that live in poverty. People say, "Well, a lot of this goes to people above poverty". Sure it does. Right now, a single person—the poverty line is $11,000. So if a large percentage of the increase in minimum wage goes to people who live above the poverty line, you are talking about someone making $12,000 a year or $13,000 or $14,000 or $15,000 a year. A mom with two kids, $18,700 a year. So if you are just a little bit above that and you get a raise, you say, "Oh, well," see a lot of this is going to people above poverty level. Yes. They may be above the poverty level, but they are still very poor and they are struggling every single day to make ends meet.

So I did not get to ask a question. I guess I gave a speech.

I yield to Senator Alexander.

Senator ALEXANDER. Thanks, Mr. Chairman.

Ms. McCrary, Ms. Campbell, and Dr. Boushey, thank you for coming today, particularly coming a long distance from Iowa.

I would like to use my 3 minutes to summarize my thinking on this, if I could.

Before I came here, I had an early meeting with the public transit people in Tennessee. They drive buses in all 95 counties who operate buses, and they take people three times a week, 200,000 people, to Nashville for dialysis treatments and back. Many of those drivers in the rural areas make the minimum wage. They would like to have more, I suppose. But if they had more, there would be fewer drivers, and there would be fewer trips to Nashville for dialysis.

That is the point of talking about the Congressional Budget Office findings. I mean the Congressional Budget Office said that this

proposal in its view would take 500,000 rungs off the bottom of economic ladders that help people move up. It would cost that many jobs, and that $4 or $5 in the benefits went to people who make more than the poverty level, and then only 2 percent of those 45 million Americans who are below the poverty level would be raised above the poverty level. Our feeling is that we could do better than that, that we can come up with a better idea after such a long period of time of unemployment to help people have higher family incomes.

And as for subsidizing businesses, the taxpayers spend about $700 billion, according to the Budget Committee, in transferring money from taxpayers to people with lower incomes. I do not think of that as subsidizing businesses. We were talking about ethical responsibilities. I think that is part of our ethical responsibility to help people who are in less fortunate economic circumstances. But I do not think it is ethical to force employers to be responsible for the ethical responsibilities of all of us taxpayers. I mean, if it is important to pay someone so that some would have more money in their pocket, why should we just pick out the job creators in America and say you have to do it? I think we all should do it if that is our collective judgment.

Our view is that we would like to raise family incomes. We would like to help people move up the economic ladders, but we have a different philosophy. We would like to take the big, wet blanket of rules and regulations off the economy that has been put on in the last few years and offer amendments that would—we have specific amendments that would create more growth in our economy, more jobs, and we do not think a proposal that is well-intentioned but that which a study that the Chairman of the Federal Reserve Board said is as good as anybody's in determining what the effect of this proposal would do—we think we can come up with something that is better. She said CBO is as qualified as anyone to evaluate that literature and I would not argue with their assessment. That was her answer to Senator Heller.

The CHAIRMAN. Thank you, Senator Alexander.

I have in order Senator Casey, Senator Warren, Senator Baldwin, Senator Bennet.

Senator Casey.

Senator CASEY. Mr. Chairman, thank you very much, and I know we have a vote, so I will be probably under 3 minutes.

I want to thank our witnesses. Doctor, I think I have some questions for you that I will submit for the record, if you do not mind. Maybe it is better to answer some of them in writing. You have more time to provide a fuller answer sometimes. But we are grateful for your testimony.

Sister, thank you again for being here and for your travels across the country. I have not had the chance to travel with you or meet you, but I heard a lot about it through our State. I am a resident of Scranton, PA in northeastern Pennsylvania, and you had a great stop there not too long ago. We are grateful for that and especially grateful for reminding us in your testimony not only of the stories that are so significant of Billy and Theresa and Lucy, Jackie, real people, but what you said on the first page where you talked about—I think this gets to the essence of what—part of the essence

of why we are fighting for an increase in the minimum wage. "Helping people know their dignity, care for the family, and build-up community." It is a great summation of why this is so important to families who really need this, and rarely can we take an action which would help them on the question of caring for their family or ensuring that they can be workers who have a sense of dignity because they are doing a job and they are getting a reasonable pay in connection with that job. So we are grateful for that.

If you do not mind, if I can call you, Alicia. I do not know you, but if you do not mind. A, we are thankful you are here. Senator Harkin is directing us to make sure you get back on time. So I am going to stop in a minute.

I wrote down two things at the top of your testimony as you were giving it. Hard work, big job, which is I think an understatement for what you do every day for your children. And we rarely see in testimony the expression of love, like in your case, for your children, that you expressed in the first paragraph. You say it is a big job and I love them so much. We appreciate you saying that.

I have four daughters. They are above the ages of 11, 10, and 5. But when I was growing up, I was one of four boys. We had eight. And my father was fascinated by how much we could eat.

[Laughter.]

So when you pointed that out, I was thinking about his reaction where he would literally just shake his head when cereal boxes would disappear.

I will maybe send you a question as well, but I did want to highlight what this would mean to you. There are so many ways you expressed it. But you said toward the end of your testimony I would love to save $20 a week and they can get haircuts at the same time. It is a pretty searing reminder about how important this is. So thanks for being here. Thanks for your witness and your testimony. We are grateful you are here.

The CHAIRMAN. Thank you, Senator.

Senator Warren.

Senator WARREN. Thank you, Mr. Chairman, and thank you all for being here today. We really appreciate it.

I think based on the best studies, if we raise the minimum wage, there is no clear answer on whether there might be some job loss or not. So I want to focus on what we know for sure would happen if we raise the minimum wage.

Sister Simone, as you know, a working mother today working full-time at current minimum wage is below the poverty line. It is not right but it is all too common.

We also know that there are 17 million children, nearly one in five children, in this country with a parent who works at less than $10.10 an hour. My view is mothers should not work full-time and live in poverty.

Now, you testified that in 1968, the minimum wage was high enough to keep a family of three out of poverty and that even in 1980, the minimum wage was at least high enough to keep a family of two out of poverty. The problem, of course, is inflation combined with the fact the adjustments to minimum wage have been left to the whims of Congress.

What I would like to ask you about is increasing the minimum wage and indexing it so that families are no longer caught in these long spells between when Congress can act and so that businesses can plan to see the increasing minimum wage coming their way. I just want to ask you to comment on that. Do you believe that it is a moral imperative not only to raise the minimum wage but to index the minimum wage to account for the changes in the value of the money?

Sister CAMPBELL. I think this is one of the key structural changes that must be made in order to address the issues of income inequality in our Nation. We have to get wages out of being a political football, which we use in election years to rally our base on either side, and deal with the base reality that people need their wages to be large enough to support their families. That is what we say. You work hard. You play by the rules. You should be able to support your family and save $20 a week. That is what we should do. Indexing it moves it in that direction. Getting it to $10.10 is critical to move it to anywhere near enough to support a family, and then to keep moving so we do not have these long dry periods where nothing happens and then we have big fights because we have to raise it 40-some percent. So indexing is critical to caring for the needs of the people of the United States.

Senator WARREN. Thank you very much. I appreciate it, Sister Simone.

And if I could have 10 seconds.

The CHAIRMAN. Please.

Senator WARREN. I just want to ask Dr. Boushey about this. We have 10 States that have indexed their minimum wage. Could you just make a very brief statement about the impact this has on businesses to be able to plan and to smooth their labor costs over time? Dr. Boushey.

Ms. BOUSHEY. Certainly. We do have a number of States, 10 States, that have already indexed their minimum wage to inflation, and you have not seen the kinds of catastrophic or even negative employment effects, and it certainly has been good for businesses and good for planning.

There was a new survey that came out of small business owners this week that showed that, if I am remembering the number exactly, 57 percent were in favor of raising the minimum wage because it increases productivity and helps them.

Senator WARREN. Thank you. Thank you so much for being here and thank you, Ms. McCrary, for being here. We really appreciate it.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator.

We have to go vote. I have a question. We have run out of time, but I am going to submit it to you, Dr. Boushey, and if you would submit the answer back in writing.

Here is the question. There are some studies on minimum wage that have really sophisticated methodologies. They look at the actual, real-world impact of past wage increases comparing lower wage areas with higher areas. Would you say these are the most reliable studies, and what is the conclusion that they reach? So if

I could do that and if you could just respond in writing, I would appreciate it.

Again, thank you all very much for being here and taking a lot of time and travel to be here. I thank the North Iowa Community Action Agency, all community action agencies—they do a great job in our country and for putting a human face on this, as I said.

I am hopeful that we can move this legislation along after the next break period and give every American a raise that deserves it. It is something we ought to be doing. Thank you all very much. Thanks, Sister. Thanks, Ms. McCrary. Thank you, Dr. Boushey, for being back here.

The committee will stand adjourned. Thank you.

[Additional material follows.]

ADDITIONAL MATERIAL

Prepared Statement of Senator Murray

Good morning, Mr. Chairman. Thank you for holding this very important hearing. We are here today to discuss a basic issue of fairness and equity. To discuss how we, as a country, are to respond to those who are struggling at the lowest rungs of our economic ladder, and who for so many years have not only been in a holding pattern, but have in fact been slipping slowly and steadily farther and farther behind.

We are here to discuss how to ensure that the American dream isn't dashed for millions and millions of workers two-thirds of whom are women.

We are here to find out whether my friends on the other side of the aisle are really going to block giving 15 million American women a raise?

To find out whether my Republican colleagues are really prepared to tell 1 in 4 working women in America that $7.25 an hour—enough for about two gallons of gas—is enough for them to support themselves and their kids and that we as a country shouldn't take this important step to provide a better standard of living for them, their families, and the generations that will follow.

Are they prepared to do that at a time when more and more women are depended upon as the sole income earners in American families.

I hope they talk to the millions of American women who, like my own mother when I was growing up, are the sole breadwinners and caregivers in their families.

And I hope they get a sense of how $7.25 an hour today translates:

- To a grocery trip for a family of four,
- Or to shopping for school supplies,
- Or even how it impacts making the daily commute.

Because American women aren't focused on how they are talking, they are interested in what they're actually saying.

[Economic Policy Institute (EPI), February 20, 2014]

CBO Report Shows Low-Wage Workers Would Be Better Off With a Minimum Wage of $10.10

(By Heidi Shierholz And David Cooper)

Tuesday's CBO report on the effects of increasing the minimum wage has generated a lot of discussion. While some of the CBO's findings are consistent with our own analysis, we have some serious disagreements. Here's our take on the report, particularly CBO's estimates on employment and income (we focus on their estimates of the effects of increasing the minimum wage to $10.10 by 2016).

The report finds that 16.5 million workers who make below $10.10 would get a raise, and an additional 8 million workers who make slightly above $10.10 would also likely get a bump (since employers like to preserve internal wage ladders). This is right in line with our estimates of the likely impact.

They found that the increase in the minimum wage would benefit mostly adults who need the earnings from their minimum wage job to make ends meet: less than 12 percent of the people who would get a raise are under age 20 and more than 70 percent of the total earnings would go to workers in families whose income is less than three times the poverty threshold. For context, in 2013, three times the poverty threshold for a family of three was around $55,700. This too is right in line with our analysis.

CBO also found that 900,000 people would be lifted out of poverty. We agree that raising the minimum will lift a significant number of people out of poverty, and if anything, CBO's estimate here seems conservative. CBO is a bit vague on how they came to their conclusion about the effect on poverty levels, but from what we can tell, it seems that they looked at current income levels, expected poverty levels in 2016, simulated how peoples' incomes would change following the minimum wage hike, and estimated the change in the number of people in poverty. This is a perfectly reasonable approach; however, there's a good body of research that has looked at the real-world experience of how minimum wage hikes have affected poverty levels. A recent paper by Arin Dube looks specifically at this question and estimates that in the past, for every 10 percent increase in the minimum wage, we've seen a 2.4 percent decrease in the number of people in poverty. This implies that increasing the minimum wage to $10.10 could reduce the number of people in poverty by as much as 4.5 million.

Notably, CBO estimates that increasing the minimum wage to $10.10 would cost 500,000 jobs—a finding that we disagree with.

It's important to note that the economists at CBO didn't do their own analysis on the employment impact of increasing the minimum wage—they looked at the academic literature on this subject and arrived at a conclusion about what it showed. In other words, they used *exactly* the same information that the more than 600 economist who signed a letter in support of increasing the minimum wage to $10.10 were looking at when they concluded that increasing the minimum wage will raise the wages of low-wage workers with little or no negative effect on employment.

CBO acknowledged that the methods of more recent studies, particularly studies of state-by-state difference that address the fact that changes in State minimum wages can be correlated with local economic conditions in ways that can bias results, "have estimated more accurately the effects of minimum wages on employment." These are the studies that show that increases in the minimum wage have caused little or no job loss. Nevertheless, they still gave consideration to older methodologies, which show significant negative effects. By doing so, they ultimately picked an estimate that is more negative than the current consensus.

The CBO does emphasize the uncertainty in their estimate, noting that their estimate is part of a large range of plausible estimates that includes "a very slight reduction in employment" (which we assume can be taken to mean basically indistinguishable from zero). In other words, their range of estimates—which they believe there is only "about a two-thirds chance" that the real impact would fall within—*includes no effect on employment*.

Also, CBO doesn't describe how their forecasted negative employment effect would play out on the ground. Importantly, it would not take the form of workers losing good jobs they've been in for a long time. Minimum wage jobs are almost by definition our economy's lowest-quality jobs, and they tend to have extremely high turnover. What an employment decline looks like in this context is that job seekers will spend a little longer looking for a job that—due to the minimum wage hike—*will pay much more*. On net, even those experiencing negative job effects end up big winners.

Last, even if you accept their employment effect, it is important to note that they find that low-wage workers as a group are unambiguously better off, with their earnings increased by $31 billion.

Prepared Statement of Jeffrey Buchanan, Senior Domestic Policy Advisor, Oxfam America

A FAIR MINIMUM WAGE IS CRITICAL TO AMERICA'S WORKING POOR CRISIS

Oxfam America is an international development and humanitarian relief agency committed to working for lasting solutions to poverty, hunger and social injustice. We work in over 120 countries around the globe to save lives, help people overcome poverty, and fight for social justice.

As a global organization working to alleviate poverty, Oxfam recognizes the importance of looking closely at poverty that too often get overlooked—including that which exists in wealthy nations like the United States. We have been working for over two decades in the United Stated to ensure fair wages and working conditions partnering with community-based organizations and some of our Nation's most vulnerable workers to build paths out of poverty. Based on these experiences, we support the legislation proposed by Senator Tom Harkin, the Fair Minimum Wage Act of 2013, to increase the minimum wage to $10.10 and index it thereafter to the costs of living and encourage the Senate Health, Education, Labor, and Pensions Committee and the U.S. Senate to advance this important legislation.

Today the minimum wage stands at $7.25, a rate far lower than its historic high of $10.74 (in 2013 dollars) in 1968. Every year the Congress fails to raise the minimum wage further erodes its real value while the costs of life's necessities continues to rise, damaging the buying power of millions of Americans working hard at jobs that do not pay the wages necessary to sustain them and their families financially. More than 10.4 million American families continue to struggle to get by on incomes in and near the poverty line despite their long hours on the job and fierce work ethics.[1] Almost one in three working families is struggling to get by on wages that fail to pay for even their families' most basic needs.[2] Today's minimum wage pays, on average, less than one-half of the basic living expenses for a family of three.[3] That parents can work full-time year round and still be forced to raise their children in poverty in the United States of America is a continuing tragedy. Hardworking Americans deserve better.

Although there have always been jobs that pay poorly in our country, the economic reality in America today is harsher, and more intractable, than at any time in recent history. We have seen drastic structural changes in the U.S. economy and workforce including the loss of living wage jobs and "hollowing out" the middle class. Nearly half of the Nation's job growth in the past 3 years continues to be concentrated in low wage industries, even though these jobs represent a minority of jobs overall in the U.S. economy.[4]

AMERICA LEADS DEVELOPED NATIONS IN POVERTY WAGES AND INEQUALITY

While America's economy calling card in the past may have been our thriving middle class and the "American Dream" of opportunity and economic mobility for anyone willing to work hard to rise into prosperity, today America has emerged as a global economic leader in three distressing categories; income inequality, low-wage work and in-work poverty. The United States is now the most unequal rich country in the world and also home to the largest percentage of low-wage workers of any advanced economy.[5] Work is not always a pathway out of poverty in the United States. In fact our Nation has among the highest percentage of working families living in poverty, eclipsed only by Poland, Mexico and Turkey, among 29 countries profiled by the OECD.[6] Certainly this is impacted by having a minimum wage much lower than the wage floors of many other developed economies, America's primary economic competitors, including Australia, the United Kingdom, France and Canada.[7] Even in terms of economic mobility, and the ability of a poor child to climb into prosperity, today America lags behind most other advanced economies.[8]

What is happening here at home is part of a broader trend Oxfam and our community partners are witnessing across the globe. According to Oxfam's report, "Working for the Few", released at the 2014 World Economic Forum, today 7 out of 10 people around the world live in countries where economic inequality has increased in the last 30 years.[9] In fact the richest 85 people in the world now hold as much wealth as the poorest 3.5 billion. In the United States, the 20 richest Americans now hold as much wealth as all 155 million people in the entire bottom half of the U.S. population. As a global development and humanitarian organization, Oxfam believes we can no longer win the fight against poverty, at home and abroad, without addressing growing economic inequality.

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[1] Roberts, Brandon, "Low Wage Working Families: The Growing Economic Gap", January 2013, *http://www.workingpoorfamilies.org/wp-content/uploads/2013/01/Winter–2012__2013-WPFP-Data-Brief.pdf*.

[2] Ibid.

[3] Cooper, David, "Raising the Federal minimum wage to $10.10 would give working families, and the overall economy, a much-needed boost", March 2013, *http://www.epi.org/publication/bp357-Federal-minimum-wage-increase/*.

[4] Royal Bank of Scotland, "US Economics Weekly", May 2013, *https://strategy.rbsm.com/Tools/Resources/.pdf?key=iPiwkV4Dbr8fpTRlJgfggzskSvFcOKPQ*.

[5] Organisation for Economic Cooperation and Development (OECD), OECD Employment Outlook 2011, (Paris: OECD, 2011).

[6] OECD, OECD Employment Outlook 2009, (Paris: OECD, 2009).

[7] Isidore, Chris "On minimum wage, U.S. lags many rivals ", CNN, February 2013 *http://money.cnn.com/2013/02/13/news/economy/minimum-wage-countries/*.

[8] OECD, Economic Policy Reforms: Going for Growth, "A Family Affair: Intergenerational Social Mobility across OECD Countries", 2010, *http://www.oecd.org/tax/public-finance/chapter%205%20gfg%202010.pdf*.

[9] Galasso, Nick; Fuentes, Riccardo, "Working for the Few", Oxfam, January 2014 *http://www.oxfam.org/en/policy/working-for-the-few-economic-inequality*.

INCREASING THE MINIMUM WAGE: A FAIR, POPULAR AND EFFECTIVE STEP

While there are many ways to reduce inequality, and perhaps few magic bullets, increasing the minimum wage is a key step that is fair, popular, and most importantly effective.

Since 1973, median real hourly compensation has risen just 10.7 percent.[10] In recent decades, real wages have stagnated for workers across most occupations and educational backgrounds in the bottom of the income distribution. The result has been expansive wage inequality between workers at top and those at the middle and bottom of the income distribution. During the recession, real wages for all but the top 5 percent of workers stagnated or fell. The proportion of income going to wages and compensation in the U.S. economy continued to shrink during this period following a trendline beginning as far back as 1980, at the same time as corporate profits reached all-time highs.

Research points to a number of possible drivers, including technology change and evolving educational needs, but changes in public policies to weaken regulation, particularly wage setting institutions and the related bargaining power of workers continue to be a major force behind reducing wages. The failure to set a fair minimum wage rate, and increase it with the rising costs of living is an important piece of this story. In fact the falling real value of the minimum wage accounts for about half of the increase in income inequality between the 50th and 10th percentile in the income distribution between 1979 and 2011.[11]

A $10.10 minimum wage will mean higher wages and incomes for a projected 27.8 million low wage workers. This includes 17 million workers now making less than $10.10 as well as roughly 11 million workers who currently make slightly above that who likely will benefit indirectly, receiving raises as business owners seek to maintain existing hierarchies among workers. The majority of these workers are adults in working families, and not just teenagers from high income families that minimum wage detractors typically point to.

In fact a full-time year-round minimum wage worker would see a $6,000 increase in income, capable of lifting a family of three out of poverty. Increasing the minimum wage will help reduce the number of working poor Americans. According to new research by Arindrajit Dube of the University of Massachusetts, Amherst increasing the minimum wage to $10.10 an hour would reduce the number of people in poverty by 4.6 million in the short term and 6.8 million in the long run.[12] It would significantly improve the incomes and quality of life for our lowest income families, without costing taxpayers a dime.

Despite fears of job losses expressed by detractors of the minimum wage, over 600 economists recently wrote a letter to leadership in the U.S. Senate and House of Representatives in favor of an increase.[13] They highlighted recent research which showed little to no decrease in employment as a result of modest increases in minimum wages. In fact some studies show an increase in minimum wage actually could increase job creation and labor force participation.

Polls suggest as many as 76 percent of Americans support increasing the minimum wage, including majorities of Democrats, Republicans and Independents.[14] A majority of small business owners also support an increase according to a survey by Small Business Majority.[15] Minimum wage increases have had bipartisan support in the recent past Congress. In both 1997 and 2007, Republican and Democratic Members of the Congress joined together to vote to increase the minimum wage under Presidents of both parties. There is no reason an increase in the minimum wage needs to remain such a divided discussion.

VOICES OF THE WORKING POOR, OXFAM'S "HARD WORK, HARD LIVES" SURVEY

Increasing the minimum wage is also very popular with low wage workers, viewed as one of the highest rated reforms the U.S. Congress can pursue to help working

[10] Mishel, Lawrence "Declining Real Value of the Minimum Wage is a major factor driving inequality", February 2013, *http://www.epi.org/publication/declining-Federal-minimum-wage-inequality/*.

[11] Dube, Arindrajit "Minimum Wage and the Distribution of Family Wages", December 2013 *https://dl.dropboxusercontent.com/u/15038936/Dube__MinimumWagesFamilyIncomes.pdf*.

[12] Ibid.

[13] Letter from over 600 Economists Supporting Minimum Wage Increase, 2014 *http://www.epi.org/minimum-wage-statement/*.

[14] Small Business Majority, "Opinion Poll: Small Businesses Support Increasing Minimum Wage", April 2013, *http://www.smallbusinessmajority.org/small-business-research/minimum-wage/*

[15] Gallup, "Most Americans for Raising Minimum Wage", November 2013, *http://www.gallup.com/poll/165794/americans-raising-minimum-wage.aspx*.

poor families. This was a finding in a Labor Day 2013 survey of 800 low wage workers commissioned by Oxfam—conducted by Hart Research Associates—showing stark and sometimes unexpected results, on the greatest challenges, aspirations and policy preferences of workers in and near poverty.[16]

The survey found that America's working poor have a strong work ethic, put in long hours, and believe that hard work can pay off. At the same time, millions of Americans hold jobs that trap them in a cycle of working hard while still unable to get ahead, which leaves them with little hope for economic mobility. Most are stuck in jobs for which they are paid less than in their previous job, and believe that people are more likely to fall from the middle class rather than rise into it.

WORKERS EARNING UNDER $10 PER HOUR SEE GREATER CHALLENGES, IMMOBILITY

Low-wage jobs (i.e., for the purposes of the survey, those paying less than $14 per hour and those in households with incomes below 200 percent of the poverty level, roughly the population of workers who would benefit directly or indirectly from a minimum wage increase) do not pay enough to provide even a modest standard of living; do not offer adequate benefits to protect workers from family illness and the demands of raising children; and leave workers unable to invest in paths to economic mobility (like education) or to save for retirement.

The survey found that most low-wage workers barely scrape by month to month, are plagued by worries about meeting their families' basic needs, and often turn to loans from loved ones, credit card debt, and payday loans, and government programs just to get by. We also found that while workers earning less than $14 per hour face far steeper challenges in making ends meet than does the average American, even among low-wage workers, a significant difference exists between those who earn more than $10 an hour, and those who earn less.

Increasing pay for workers making below $10 per hour can mean the difference between poverty and getting by. While nearly half (44 percent) of workers earning over $10 an hour say they at least meet their basic living expenses, just one-third (34 percent) of workers making less than $10 an hour can say the same.

When asked how often they worry about a series of personal challenges, 69 percent of workers making less than $10 an hour reported worrying sometimes or frequently about either losing a job or not being able to find one, compared with 59 percent of workers making between $10 and $14. In fact, in this instance, $10 an hour appears to mark a dividing line. Workers making between $10 and $12 an hour (57 percent) more closely resemble workers making between $12 and $14 (62 percent) than they do workers making less than $10 (69 percent). This finding provides further evidence that increasing the minimum wage to $10.10 per hour could lead to a dramatic difference in the quality of life for workers making the lowest wages.

Workers making more than $10 an hour were also less likely to worry about keeping up with rent or mortgage payments. This is not surprising, considering that just 37 percent of these workers spend more than half their income on rent or mortgage, compared with half (51 percent) of workers making less than $10 an hour. With low wages, unstable work situations, and housing commitments that make up such a high percentage of their anticipated income, it is no surprise that workers earning less than $10 an hour face a predominantly paycheck-to-paycheck existence. When asked whether they have savings that would cover their living expenses for at least 3 months—generally considered an appropriate sign of financial stability—less than one in five (18 percent) workers making less than $10 an hour responded that they did. While too few workers making more than $10 answered this question in the affirmative, workers making between $10 and $12 were 14 points more likely to say they had the requisite savings than workers making less than $10 an hour.

In term of the challenges low-wage workers identified in achieving their career goals and economic mobility, workers making less than $10 an hour, are much more likely to classify these challenges as big obstacles. These challenges include a bad economy and job market in their community (which 61 percent of workers making less than $10 an hour report as a very or fairly big obstacle, compared with 47 percent of workers making between $10 and $14), and difficulty getting a loan or investments to start their own businesses (34 percent for workers making less than $10 and 25 percent for those making between $10 and $14). Workers making less than $10 an hour are also more likely to cite the difficulty of affording more education or training (40 percent to 33 percent), and are more than twice as likely to cite a lack of reliable and affordable transportation as a very or fairly big obstacle

[16] Oxfam America, "Hard Work, Hard Lives", August 2013, *http://www.oxfamamerica.org/explore/research-publications/hard-work-hard-lives/*.

than workers making between $10 and $14 (17 percent for workers making between $10 and $14, and 35 percent for those earning less than $10).

OF SOLUTIONS FROM THE WORKING POOR, MINIMUM WAGE RISES TO THE TOP

The survey showed 79 percent of low wage workers supported an increase in the minimum wage as an important step the U.S. Congress could take to benefit their families and communities economically. While not a silver bullet, this is an important bill for the Senate to support in its efforts to address the growing needs of the working poor. The poll also showed support for a number of other policies the Congress could pursue to improve the economic futures of working poor families including strengthening the earned income tax credit (71 percent), improving access to child care subsidies (79 percent), expanding partnerships between industry and workforce training institutions (84 percent).

But low wage workers lack faith in their elected officials to take action to address the needs of the working poor. In fact most workers (65 percent) believe Congress is more likely to pass laws that benefit the wealthy more than everyone else than to pass laws benefiting the poor (9 percent) by a scale of more than six to one.

CONCLUSION

This Congress has an opportunity to turn this perception around by forming a new agenda to address the needs of America's working poor. With so much interest in inequality, mobility and poverty across leaders on both sides of the aisle in Congress in recent months, it would be a tragedy to not find ways to address the needs of these often forgotten, hardworking families. Past increases of the minimum wage have happened under both Democratic and Republican Administrations thanks to previous bipartisan support in the Congress. Passing a minimum wage increase is an important first step in addressing the needs of the working poor. While increasing the minimum wage to $10.10 will not solve every challenge for low-wage working families, it has the potential to have a significant positive impact on reducing poverty and improving economic opportunity of millions of hard working Americans. Passing this important legislation is a chance to enable people to get a better shot at economic mobility and helping themselves: to better make ends meet, afford education, training for themselves and their children, to save money for homes and retirement.

We would also encourage the committee and your colleagues in the Senate to continue to pursue other policies highlighted by our recent survey to promote the mobility and opportunity of the working poor:

- Strengthening partnerships between industry and job training institutions to better prepare low wage workers for high demand, decent wage jobs;
- Improving subsidies for childcare to low-wage working parents;
- Expanding earned paid medical and family leave to more low wage workers to ensure caring for a new child or loved one doesn't force workers to lose their job and income; and
- Strengthening tax credits like the Earned Income Tax Credit to help make work pay improve the incomes and quality of life of low-income workers and their families.

PREPARED STATEMENT OF GWEN MOORE

Chairman Harkin, Ranking Member Alexander, Good morning. It's an honor to be here today.

My name is Gwen Moore. I'm a single mother of two children from Mankato, MN. I'm here to talk about why it's important we raise the minimum wage to $10.10 and why it must keep up with inflation.

I make $8.50 an hour cleaning hotel rooms. It's hard work. I'm on my feet all day and I'm exhausted at the end of my shift. But I love my job. It's important work. And those are some of the reasons why the work should be better rewarded.

With a take-home pay of about $800 a month, I have to rely on government assistance and a helping hand from family members just to get by. I have subsidized housing. I receive food assistance and rely on the local food bank. For now, I have to swallow my pride to keep my family from going hungry and homeless. I want to and should be able to stand on my own. A minimum wage of $10.10 would bring me closer to that goal.

Here's a little glimpse of what it's like living and raising a family at just above minimum wage.

Any of you who have children know how expensive it is to keep food on the table, clothes on their backs and a roof over their heads, and those are just the basics.

My 11-year-old son is growing fast, he's outgrown the coats, clothes, and shoes I bought him for the winter, and we still have at least a month of bitter cold ahead of us in Minnesota. He's tall and it's tough finding clothes that fit him. It costs me hundreds of dollars every few months, just to keep up with his growth. I'm not buying Nikes or top name brands. I'm shopping at deep discount stores, thrift shops and relying on hand-me-downs from family and friends. Fortunately, my 8-year-old girl is not growing as fast, but making sure she has a warm coat, snow pants and other gear just to walk to school in the frigid Minnesota winter is expensive.

The expenses bring sacrifice, going without other necessities like clothes for myself. And forget extras. In Minnesota, we've been in a deep freeze. Temperatures have been at or dangerously below zero for much of the last 2 months. I'd really like to take them to go see a movie or have an afternoon out but there's no way I could afford to. Fortunately we have a rec center in town to prevent us from being cooped up all winter.

I'd like to start some kind of college savings fund for them, but there's no extra money to even save for short-term emergencies. It's only a matter of time before my 1990 Chevy Corsica dies, and I'm left to rely on friends, co-workers, and an infrequent bus system to get to and from work and the grocery store.

I save on childcare by working when my children are at school. But that comes with a sacrifice. Since I have to work a shorter day, there are times I have to work 14 days straight just to get enough hours to meet my expenses.

I feel like all I do is work, and it's frustrating because I never seem to get ahead. So many co-workers and community members feel the same way. Even if I do get the supervisor's job I'm working hard toward, there will still be co-workers and others in my community making minimum wage; working hard, but struggling and relying on family and public services just to get by.

People who don't want to raise the minimum wage should walk a day in the shoes of someone trying to make it on just $7.25 or $8.50 an hour. In Minnesota, there are folks making as little as $5.25 an hour because of loopholes in State law. This is unjust and demoralizing.

Ten dollars and ten cents would make hardworking people feel as if their efforts were valued. It would increase morale in the workplace. It would ease family and community struggles.

For me, $10.10 would provide breathing room. It would mean not having to work 14-day stretches to pay for the basics. I could buy my daughter the proper gear for her dance classes and not have to worry as much when my son grows another inch.

Ten dollars and ten cents means I'll be able to afford more groceries at my local food store.

After all, if we're all making more, we'll all be spending more. For me, $10.10 means an extra $2,500 a year. It means being one step closer to financial independence.

Making sure the minimum wage keeps up with inflation is also critical for me to keep up with the rising cost of food, clothes, transportation, and housing.

I know what some people are thinking, why wait for government to raise the wage? Why not just look for a better job or go back to school and increase your skills. That's a valid question.

First, I've looked long and hard for the job I have, there isn't much out there, especially in smaller towns like mine. And yes, I think it's always a good idea to go back to school and upgrade your work skills. However, there will always be a need for jobs like mine. Someone has to clean hotel rooms, office buildings, schools and hospitals. Someone has to prepare food at restaurants. And there will always be a need for grocery store and retail clerks.

These jobs must pay fairer wages, wages that allow families to meet basic living expenses. Wages that aren't so heavily subsidized by social safety net programs and local charities.

I want to stand on my own; I want a better life for my children. Raising the minimum wage to $10.10 an hour will help me do that with dignity. It's fair, it's just, it's smart business.

Prepared Statement of Laurie Anne Palmer, BURGER KING® Franchisee, Waterville, ME

Chairman Harkin, Ranking Member Alexander and members of this committee, thank you for the opportunity to submit my testimony today. My name is Laurie Anne Palmer and I own Waterville Burger Corporation which runs four BURGER KING® restaurants in the Waterville area of Maine. I would like to note that I am a small business owner; my views are my own and may not reflect those of the BURGER KING brand.

In 1972, my father, David Palmer, purchased the only existing BURGER KING® restaurant in Maine. Over the next 8 years, my mother and father expanded to 5 restaurants around Portland and Waterville, ME. After selling their Portland stores, my parents formed Waterville Burger Corporation and began growing their operations in the Waterville area, eventually turning the company over to me in 1996. As a teenager and into college, I had worked part time in their restaurants, so it was a natural fit for me to take over upon their retirement. I've always considered my parent's employees as my second family, and I still do so today.

In 1998, I was forced to close one of my restaurants. This restaurant was located in Boothbay Harbor, ME—a very seasonal small fishing town. The State of Maine's Department of Transportation had rerouted the tourist traffic off I–95 resulting in a bypass of the town. My other restaurants were supporting this restaurant financially and it just did not make sense to continue to lose money at that location. I have invested significant time and money in my four remaining stores, including transferring $25,000 of my personal savings this year alone into the business to keep it afloat. I will always do what it takes to keep my company healthy. Personal sacrifice is the first step in cutting costs. I learned this from my parents and will continue this method of operation. I am proud to employ 140 people, 30 of which are full-time and 110 are part-time.

I am here today to talk to you about the Fair Minimum Wage Act of 2013 (S. 460). As I understand it, this bill seeks to increase the Federal minimum wage from $7.25 per hour to $10.10 per hour, which equates to a 39.3 percent increase. It would also increase the cash wage for tipped employees from $2.13 per hour to $7.07 per hour, a 232 percent increase. If this legislation becomes law, small business owners like myself—who already face minimal profit margins—will either be forced to recoup the costs elsewhere or close their businesses entirely. In a business that has been solely owned and run by my family, this possible outcome would be devastating not only for me, but for my second family—my employees.

THE FRANCHISE MODEL

It is important to understand that, as a franchisee, the business model under which I operate is much different than other small business owners. By signing a franchise agreement, my businesses must carry certain trademarks and other identifiers consistent with the BURGER KING® brand. BURGER KING Corporation also receives a monthly royalty fee of 3.5 percent and a monthly advertising fee of 4 percent of my gross sales.

As a franchisee, I am often seen as an agent of the brand and not a small business owner. In fact, my salary comes from the net income generated after royalty and advertising fees, payroll, supplier bills, utility bills, and other costs associated with running my business. My net income last year was $35,100. In particularly slow months, I didn't receive a salary at all. In the months devastated by weather I had to contribute money into the business. Further, I am currently preparing my business for the implementation of the Affordable Care Act (ACA), which is going to cost me thousands of dollars, if not more.

It is crucial to understand that, as a franchisee, government mandates are paid out of my pocket—not that of my franchisor. That's why additional proposals like an increase in minimum wage will put yet another financial strain on my business—one that's already struggling to keep its doors open.

QUICK SERVICE RESTAURANT (QSR) INDUSTRY

As a franchisee in the QSR industry, my profit margins are minimal. As a businessperson, I look at the penny profits of the products I sell. Data from a P&L benchmark report prepared by my purchasing cooperative, Restaurant Services, Inc. (RSI), shows that, from November 2012–October 2013, the average net profit per BURGER KING® Restaurant was approximately $78,000. An increase in the minimum wage to $10.10 per hour ($2.85/hour) for a small business owner employing 10 minimum wage workers working 40 hours per week is an increase of $59,280 per year. Simple math reveals that an increase in minimum wage to $10.10 per hour would reduce the average net income of a BURGER KING® franchisee to $18,720 per year—**a figure lower than the 2014 Federal poverty level for a family of three**. For a franchisee like me whose net profits are less than half of the $77,000 average, it would simply put me out of business.

Further, a calculation of profits per employee reveal that those in the QSR industry like me cannot afford to absorb the impact of costs such as a minimum wage increase. In fact, a study from the University of Tennessee's Center for Business and Economic Research concluded that the average net income—or profit—per employee for those in the hospitality industry is $754—significantly lower than almost

every industry in the United States (see attached PPE Executive Summary). An increase in minimum wage to $10.10 per hour would cost me $5,928 for each full-time (40 hours per week) minimum wage employee per year ($2.85 × 40 × 52)—a figure far below the income generated per employee. Again, the math shows that I simply cannot afford this minimum wage increase and, unless I can recoup the costs somewhere else, will go out of business."

IMPACT ON MY BUSINESS

An increase in minimum wage will directly and negatively impact my ability to create new jobs while limiting the benefits available to my current employees. I currently employ 60 people who work an average of 25 hours per week and earn the current minimum wage as defined by Maine law—$7.50 per hour. All but a hand full of these people were hired within the last 6 months. **Mathematically, an increase in the Federal minimum wage would cost me an extra $3,900 per week or $208,000 per year ($2.60 × 25 × 60 × 52). As I mentioned above, my net income for last year was approximately $35,100—with an extra $208,000 in expenses, I will very likely be forced to close my business.**

In order to remain in business and continue to employ over 140 individuals, these costs must be recouped somewhere. Most likely, I will be forced to cut employee hours, increase menu prices and/or freeze all possible new hires. The industry has developed equipment engineered to reduce labor hours in the restaurant—an increase in minimum wage would make the purchase of this equipment a more likely consideration. These employees are my second family—many of them have worked for me for over 10 years. A small handful have even been with me for over 20 years. Having to cut their hours or even layoff employees would be almost as devastating to me as it would to my employees.

While an increase in the minimum wage doesn't take into account the overwhelming financial burdens of ACA implementation, I have additional costs that are cutting into my already minimal profits. Increases in food and energy costs have been rising steadily over the last several years. I must additionally consider the fact that my higher paid employees will also be seeking an increase in pay as a result of an increase in minimum wage. My payroll costs are at 30 percent of my net sales with the current wage structure. Simply put, another costly government mandate such as an increase in minimum wage may be the nail in my business's coffin.

THE ACTUAL "MINIMUM WAGE"

In truth, the "minimum wage" is not a floor—it is an opportunity for those who may neither want nor have access to other employment. It is a "starting wage" in which primarily young, inexperienced workers are given the training and experience they would have not otherwise received. As a result of hard work and dedication, many quickly receive pay increases and are promoted within the organization.

The majority of my employees have been promoted due to their hard work and dedication and now serve as managers in my restaurants. In fact, my four General Managers began their careers with me earning the minimum wage and have worked their way to the top position in each of my restaurants. All of my hourly managers began by earning the minimum wage and have each worked hard to earn a management position. I strongly believe in developing the talent of individuals.

One hundred percent of my current staff starting at minimum wage are under 25. In fact, 47 percent of Federal minimum wage restaurant employees are teenagers, while 71 percent are under the age of 25. The average household income of a restaurant worker that earns Federal minimum wage is $62,507. Minimum wage income is often a supplement to family wages or as "spending money" for younger workers.

An increase in the Federal minimum wage will likely and directly hurt those it was intended to benefit. By increasing costs, small business owners like me will be forced to eliminate entry-level jobs and redistribute tasks to more senior employees. The availability of job opportunities for those who need it the most will decrease and unemployment will likely rise. In sum, a minimum wage increase will hurt both small business owners and their potential employees across the country—the last thing we need in an already stagnant economy.

I'm proud of the opportunity I offer my employees and of course I wish I could pay them more, but my industry business model makes it very difficult. As I referenced previously, this is a labor-intensive business with tight margins. It is challenging enough competing with McDonalds, Wendy's and others, but when mandates like ACA and this proposed wage hike are thrust upon me, I get scared, I really do . . . for me and my employees.

Thank you for the opportunity to explain the effect of a minimum wage increase on my business.

Profit Per Employee

"Means Testing" for Government Business Mandates

Background

For many years, legislators and regulators implementing business mandates have used unfair and arbitrary metrics to determine which businesses should receive exemptions based upon the cost of compliance. They are rightly concerned that these mandates can overburden an employer's ability to operate, which is why such exemptions exist. Unfortunately, these overly simplistic metrics have disproportionately hurt labor intensive, low-margin industries such as those in the service sector. The unintended consequences have been reduced hours, lost jobs, and little incentive for employers to grow their businesses. They either reduce jobs to qualify for the "50 employees or less" exemption or refuse to grow beyond 50 employees.

What is Profit Per Employee (PPE)? Profit Per Employee is an established business metric that is calculated by simply dividing net profit by total number of employees. The calculation of *Profit* in the PPE metric will rely on standard accounting rules as defined under Generally Accepted Accounting Principles (GAAP).

Based on this number, Congress can more accurately determine who is able or unable to absorb a cost mandate. For example, a company with PPE of $100,000 can accommodate a cost mandate of $1,000 per employee, whereas a company with a $3,000 PPE will clearly struggle to absorb the mandate. The most common business exemptions currently used are total employees (50 employees or less) or total revenue ($500,000 or less).

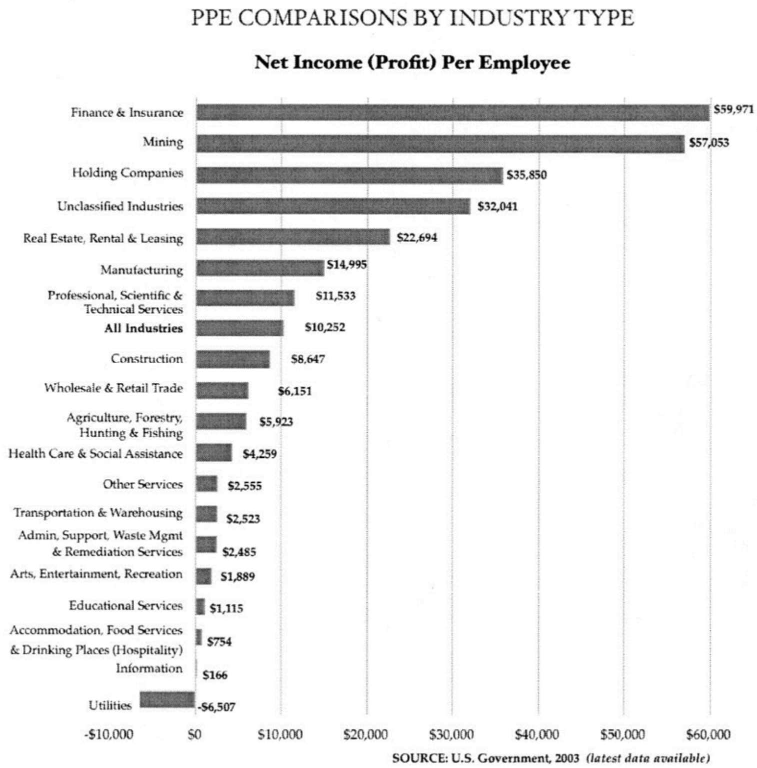
How would PPE work? The PPE metric will allow Congress to "means test" which businesses will be forced to cut hours, jobs, or even close its doors if they are not protected from a mandate. Businesses seeking a waiver or relief from a specific mandate would need to demonstrate their businesses have a verifiable PPE of $5,000 or less. Both public and private business entities would use information from their IRS tax return (a legally attested document) to calculate their PPE.

A 3-year PPE average would also be required to ensure that only businesses with traditionally low margins would qualify. This information would be submitted to the relevant Federal agency for a ruling. Since the PPE calculation would be derived from existing regulatory obligations, compliance would not be burdensome for businesses. The application waiver could be submitted on a single page so processing by the relevant agency would be timely and efficient.

Analysis

A 2010 study from the University of Tennessee's Center for Business and Economic Research concluded that Profit Per Employee (PPE) is a much more meaningful metric for exemption policies across diverse industries and business models. This new metric will help level the playing field across different industries.

> "(*Profit Per Employee*) *would be better than total employment because it is a better proxy for ability to pay, and it would be better than total profits alone because it accounts for variation in firm size and profit margin*."—Economist Donald Bruce



Profit (Net Income) Per Employee comparisons clearly illustrate the large discrepancies between industries that are currently ignored by lawmakers writing business mandates, putting low-margin industries as a distinct and unfair disadvantage.

The Profit Per Employee Coalition is a 501(c)(6) not-for-profit corporation consisting primarily of employers from labor intensive, low-margin service industries. Coalition members are dedicated to protecting U.S. jobs and businesses by ensuring that future legislation considers the impact of mandates on lower-margin industries such as those in the service sector.

A STATEMENT TO FEDERAL POLICYMAKERS

The "recovery" from the Great Recession has been anemic. Business growth, job creation, and consumer spending remain tenuous. Since the official trough in June 2009, median income has fallen, real wages have barely risen, unemployment remains elevated, and because so many Americans have left the work force entirely, the fraction of the population working is below the pre-recession level.

To address the very real concerns of out of work and low-wage workers, many of our Nation's policymakers point to raising the minimum wage as a "silver bullet" solution. Although increasing wages through legislative action may sound like a great idea, poverty is a serious, complex issue that demands a comprehensive and thoughtful solution that targets those Americans actually in need.

As economists, we understand the fragile nature of this recovery and the dire financial realities of the nearly 50 million Americans living in poverty. To alleviate these burdens for families and improve our local, regional, and national economies, we need a mix of solutions that encourage employment, business creation, and boost earnings rather than across-the-board mandates that raise the cost of labor.

One of the serious consequences of raising the minimum wage is that business owners saddled with a higher cost of labor will need to cut costs, or pass the increase to their consumers in order to make ends meet. Many of the businesses that pay their workers minimum wage operate on extremely tight profit margins, with any increase in the cost of labor threatening this delicate balance.

The Congressional Budget Office's (CBO) most recent report underscores the damage that a Federal minimum wage increase would have. According to CBO, raising the Federal minimum wage to $10.10 per hour would cost the economy 500,000 jobs by 2016. Many of these jobs are held by entry-level workers with limited experience or vocational skills, the very employees meant to be helped.

The minimum wage is also a poorly targeted anti-poverty measure. Extra earnings generated by such an increase in the minimum m wage would not substantially help the poor. As CBO noted, "many low-wage workers are not members of low-income families." In fact, CBO estimates that less than 20 percent of the workers who would see a wage increase to $10.10 actually live in households that earn less than the Federal poverty line.

For these reasons, we encourage Federal policymakers to examine creative, comprehensive policy solutions that truly help address poverty, boost incomes from work, and increase upward mobility by fostering growth in our Nation's economy.

Sincerely,

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Nobel laureate

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University of Maryland University College

Stephen Pruitt
University of Missouri-Kansas City

Gary Quinlivan
Saint Vincent College

Richard Rahn
Cato Institute

Reza Ramazani
Saint Michael's College

Valerier Ramey
UCSD

David Ranson
H.C. Wainwright & Co. Economics Inc.

Richard Rawlins
Missouri Southern State University

Ralph Reiland
Robert Morris University

Charles Rendleman
SIU Carbondale

Richard Rendleman
UNC Chapel Hill

David Resler
Nomura Securities

Ali Reza
San Jose State University

Edward Rice
University of Washington

Mark Rider
Georgia State University

Shawn Ritenour
Grove City College

Jay Ritter
University of Florida

Allison Roberts
Flagler College

Nancy Roberts
Arizona State University

Lindon Robinson
Michigan State University

Steve Robinson
UNC Wilmington

Michael Rolleigh
Williams College

Philip Romero
University of Oregon

Harvey Rosen
Princeton University

Larry Ross
University of Alaska Anchorage

Robert Rossana
Wayne State University

Timothy Roth
University of Texas at El Paso

Philip Rothman
East Carolina University

John Rowe
University of South Florida

Sudipta Roy
Kankakee Community College

Paul Rubin
Emory University

Roy Ruffin
University of Houston

Tony Rufolo
Portland State University

Nicholas Rupp
East Carolina University

Philip Rushing
University of Illinois

Thomas Rustici
George Mason University

John Rutledge
Claremont Graduate University

Zagros Sadjadi
Winston-Salem State University

Andrew Samwick
Dartmouth College

Allen Sanderson
University of Chicago

Raymond Sauer
Clemson University

Thomas Saving
Texas A&M University

Edward Scahill
University of Scranton

Eric Schansberg
Indiana University Southeast

Paul Schoofs
Ripon College

Bill Schwert
University of Rochester

Frank Scott
University of Kentucky

Haney Scott
California State University

Loren Scott
Professor Emeritus LSU

Roger Sedjo
Resources for the Future

Richard Selden
University of Virginia

Barry Seldon
University of Texas at Dallas

David Shaffer
Villanova University

Sherrill Shaffer
University of Wyoming

Sol Shalit
University of Wisconsin

Scott Shane
Case Western Reserve University

Alan Shapiro
University of Southern California

Karl Shell
Cornell University

Judy Shelton
Atlas Economic Research Foundation

Ann Sherman
Depaul University

Mark Showalter
Brigham Young University

William Shughart
Utah State University

George Shultz
Hoover Institution

Donald Siegel
University at Albany, SUNY

Thomas Simpson
UNC Wilmington

William Smiley
Marquette University

Clair Smith
St. John Fisher College

Daniel Smith
Troy University

Kenneth Smith
University of Arizona

Richard Smith
University of California Riverside

Lawrence Southwick
University at Buffalo

Francis Spreng
McKendree University

Stephen St Marie
California Public Utilities Commission

Dennis Starleaf
Iowa State University

Michael Staten
University of Arizona

Robert Stauffer
Roanoke College

Jack Stecher
Carnegie Mellon University

Charles Steele
Hillsdale College

Jerry Stevens
University of Richmond

Scot Stradley
Concordia College

Michael Stroup
Stephen F. Austin State University

Gerry Suchanek
University of Iowa

Daniel Sumner
University of California, Davis

Scott Sumner
Bentley University

Daniel Sutter
Troy University

Shirley Svorny
Cal State Northridge

Joseph Swanson
Northwestern University

Michael Sweeney
Hillsdale College

Michael Sykuta
University of Missouri-Columbia

Moshe Syrquin
University of Miami

Thomas Tacker
Embry-Riddle Aeronautical University

Robert Tamura
Clemson University

Craig Tapley
University of Florida

Jason Taylor
Central Michigan University

John B. Taylor
Stanford University

Timothy Terrell
Wofford College

Paul Thomas
Intel Corporation

Henry Thompson
Auburn University

Judith Thorton
University of Washington

Edward Tower
Duke University

Russell Tronstad
University of Arizona

Charles Trzcinka
Indiana University

Kuo-Chen Tseng
California State University

David Tuerck
Suffolk University

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Kamal Upadhyaya
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Vijay Vaidyanathan
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Harold Van Boven
Edison State College

Larry Van Horn
Vanderbilt University

John Van Huyck
Texas A&M University

David Vang
University of St. Thomas

Karen Vaughn
George Mason University

Stan Veuger
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John Volpe
Catholic University of America

Gautam Vora
University of New Mexico

Richard Wagner
George Mason University

Donald Walker
Indiana University of Pennsylvania

Stephen Walters
Loyola University Maryland

Gary Walton
University of California, Davis

John Warner
Clemson University

Bill Watkins
California Lutheran University

John Watters
McKendree University

Bruce Webb
Gordon College

Bill Weber
Southeast Missouri State University

Leon Wegge
University of California, Davis

Ken Weiher
University of Texas at San Antonio

Andy Weintraub
Temple University

Frank Weiss
John Hopkins University

Joseph Wesson
Normandale College

Gregg Whittaker
William Jewell College

Virginia Wilcox-Gok
Northern Illinois University

Arlington Williams
Indiana University

Michael Williams
University of Denver

Peter Williams
University of North Alabama

Wayne Winegarden
George Mason University

Willard Witte
Indiana University

Gary Wolfram
Hillsdale College

Michael Woolley
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Colin Wright
Claremont McKenna College

Frank Wykoff
Pomona College

Thomas Wyrick
Missouri State University

Chong Xiang
Purdue University

Phil Xu
Texas A&M University

Bruce Yandle
Clemson University

Leland Yeager
Auburn University

Anthony Yezer
George Washington University

M.Y. Zaki
Northern Michigan University

Yao Zhang
Columbia University

Joseph Zoric
Franciscan University of Steubenville

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Prepared Statement of John Schmitt, Senior Economist, Center For Economic and Policy Research, (CEPR), Washington, DC

On almost every issue in dispute, February's Congressional Budget Office (CBO) report embraced arguments made by supporters of a higher minimum wage. The only major exception—which dominated the media coverage—was with respect to the employment effects of a minimum-wage increase, where the CBO decided to saw the baby in half.

This statement analyzes the disputes where the CBO accepted the numbers and the reasoning of supporters of increasing the minimum wage and also provides some observations on CBO's analysis of the employment effects of the minimum wage.

1. The minimum wage will directly affect tens of millions of workers. Opponents of the minimum wage like to cite Bureau of Labor Statistics (BLS) numbers that suggest that there are only about *1.6 million minimum-wage workers*, ignoring that this figure refers only to workers who earn *exactly* the Federal minimum wage of $7.25 per hour.

CBO, instead, estimates that about 16.5 million workers would receive a wage increase because the CBO correctly factored in that millions more workers who earn between the current Federal minimum wage and the new proposed level of $10.10 would also receive a pay increase.

The CBO estimate of the total direct beneficiaries is almost identical to the *16.7 million worker* estimate produced by the Economic Policy Institute and used widely by supporters.

2. The minimum wage will indirectly raise the wages of millions more. Opponents downplay "spillover" effects of the minimum wage, that is, they say that the minimum wage is unlikely to have any impact on the wages of workers earning above the Federal floor.

The CBO, however, estimates that about 8.0 million workers who otherwise would have earned just above $10.10 in 2016 would also receive a boost after the increase, as employers adjust internal pay scales to reflect the new lower wage at the bottom.

The CBO estimate is somewhat lower than EPI's projection of *11.1 million* workers, but still constitutes solid recognition of the importance of "spillover" effects and the capacity of the minimum wage to influence the broader wage distribution.

3. The beneficiaries of a minimum-wage increase are overwhelmingly not teenagers. Opponents argue that the typical minimum wage worker is a *suburban teenager*. CBO's analysis includes all workers that would receive an increase in the minimum wage and concludes that only 12 percent of these low-wage workers are teenagers, 10 percent have a college degree, and more than half (53 percent) work full-time. These numbers mirror closely the *demographic data produced by EPI* and widely cited by supporters of the increase.

4. The large majority of benefits of a minimum-wage increase would go to low- and middle-income families. Opponents claim that the minimum wage is *not well-targeted* to low-income families. But, CBO says 65 percent of the increase in earnings would go to families with incomes below three times the Federal poverty line (or, roughly, about $60,000 for a family of three). Again, the CBO figures are close to EPI's estimates, which conclude that about 69 percent of benefits go to families with incomes below $60,000, with 23 percent going to families with incomes below $20,000.

5. The minimum wage will reduce poverty. One of the sources most frequently cited by opponents of the minimum wage, David Neumark and William Wascher's book, *Minimum Wages* (2008), does not pull any punches on the impact of the minimum wage on poverty: ". . . there is essentially no empirical evidence indicating that minimum wages have beneficial distributional effects. Instead, the research tends to find either no evidence of distributional effects or evidence that minimum wages increase poverty." (p. 189)

But, the CBO report rejected this reading of the research and concluded that an increase to $10.10 would, on net, lift 900,000 people out of poverty.

The CBO's estimate of the size of poverty reduction is more conservative than *recent projections* produced by economist *Arindrajit Dube*, who concluded that increasing the minimum wage would reduce poverty by between 4.6 million and 6.8 million people, after full implementation. But, CBO clearly believes that—even after employment losses—that the minimum wage is an anti-poverty tool.

6. The minimum wage is a form of stimulus. The CBO also acknowledged and accepted the *economic logic of supporters* of the minimum wage who argue that by increasing the incomes of low-wage workers—who tend to spend a very high share of what they earn—a minimum-wage increase would act as a stimulus to the broader economy.

CBO writes:

> "On balance, according to CBO's analysis, raising the minimum wage would increase demand for goods and services . . . [by shifting] income from business owners and consumers (as a whole) to low-wage workers. Low-wage workers generally spend a larger share of each dollar they receive than the average business owner or consumer does; thus . . . overall spending increases." (p. 27)

CBO's estimate that this stimulus effect would "boost . . . employment by a few tens of thousands of workers in the second half of 2016" is in the ballpark of *EPI's estimate* of about 85,000 jobs through minimum-wage stimulus.

7. EITC and minimum wage are complements. Whenever efforts to increase the minimum wage gain momentum, opponents suggest expanding the Earned Income Tax Credit (EITC) *instead*. (The EITC is a refundable tax credit that boosts the after-tax wages of low-wage workers in low-income families, especially those with children.) Opponents see the minimum wage and the EITC as competing with one another. Supporters of the minimum wage, though, see the two policies as strongly complementary.

The EITC, in a straightforward way, increases the incentive to work. As a result, the EITC draws more people into the labor market and induces others who already have jobs to work more hours. The resulting increase in labor supply drives down the market wage (that is, the wage before EITC benefits are paid), which lowers employers' labor costs. The EITC, which was designed as a subsidy to low-wage workers, also effectively functions as a tax-payer subsidy to low-wage employers. A minimum wage puts a *limit on the size of that subsidy* to employers.

The two policies work well together. The EITC raises wages for low-income workers to where a minimum wage of the same level would likely cause job loss. Meanwhile, the minimum wage ensures that the benefits of the EITC go to workers, not employers.

CBO acknowledges these important issues, citing research by *David Lee and Emmanuel Saez*, as well as *Jesse Rothstein*, and concludes:

"An increase in the minimum wage would shift some of that benefit [of the EITC that accrues to employers, rather than to workers] from employers to workers by requiring the former to pay the latter more." (p. 15)

On all of these issues, the CBO concluded that supporters of raising the minimum wage were right and opponents were wrong. According to CBO, raising the minimum wage to $10.10 per hour by 2016 would directly raise the wages of over 16 million workers and indirectly raise the wages of another 8 million. The beneficiaries are overwhelmingly adults, most working full-time. The benefits are well-targeted, with the large majority going to low- and middle-income families. The CBO believes that the minimum wage will lift almost 1 million people out of poverty. The CBO also endorses both the idea of the minimum wage as stimulus and the idea that the minimum wage and the EITC are policy complements, not substitutes for one another.

8. In a major departure from earlier CBO analysis, the range of likely employment outcomes in the new CBO report includes zero. Headlines have focused on CBO's "central estimate" of the "change in employment" from an increase in the Federal minimum wage to $10.10—a loss of 500,000 jobs. But, the "likely range" in the CBO forecast runs from a "[v]ery slight decrease to –1.0 million workers."

A mid-range estimate of 500,000 jobs lost, with a high-end estimate of one million jobs lost, is obviously bad optics for the proposed increase. Nevertheless, recognition in a CBO document that the "likely range" of employment effects effectively includes zero (a "very slight decrease") is, as far as I can tell from reviewing several past CBO evaluations of the minimum wage, completely unprecedented.

CBO reports from the late 1990s, for example, assume that a 10 percent increase in the minimum wage would reduce employment of teenagers by between 0.5 percent and 2.0 percent, with a "smaller percentage reduction for young adults (ages 20 to 24)." (CBO, 1999, p. 4) A 2001 *CBO report* was not as explicit about its assumptions, but the estimated employment impact did not include zero (200,000 to 600,000 jobs lost).

Including zero in the range of plausible employment outcomes—for the first time ever—ought to feature more prominently in the discussion of the report and in the evaluation of the proposal on the table, especially considering that the proposal involves an increase in the minimum wage of almost 40 percent.

More than *two decades of research* that has questioned the negative employment impact of moderate increases in the minimum wage is slowly entering into standard analysis.

9. The CBO chose not to referee a deep divide in the economics profession and, instead, awkwardly split the difference on estimates of the employment effects. The appendix to the CBO report provides details on specific assumptions about the employment effects of the minimum wage, but offers little on how CBO arrived at those specifics.

Two assumptions drive most of the employment results. The first is the assumption that a 10 percent increase in the minimum wage would reduce teen employment by 1 percent with a "likely range" from close to zero ("a very slight negative amount" p. 23) to as high as 2 percent. The second assumption is that the effect on low-wage adults would be "about one-third" (p. 25) of the estimated effect for teenagers.

The CBO cites numerous studies in connection with the choice of these "policy elasticities." But, non-specialist readers won't realize that none of CBO's parameters actually appear in any of the studies cited. Probably the most prominent minimum-wage critics, *David Neumark and William Wascher*, for example, argue that a 10 percent increase in the minimum wage reduces teen (and less-skilled worker) employment by 1 to 2 percent—not the 0 to 2 percent used by the CBO. Other critics would put the range between 1 and 3 percent, for a mid-range of 2 percent. Meanwhile, the research by *Arindrajit Dube, Michael Reich, Sylvia Allegretto*, and William Lester—the group of economists that in recent decades has most informed minimum-wage supporters—puts the employment effect on teens as centered close to zero, with a 10 percent increase in the minimum wage associated with between a 0.6 percent decrease and a 1.3 percent *increase* in employment (this range taken from *Allegretto, Dube, Reich, and Zipperer*, Table 3, columns 5–8).

Michael Reich has noted, CBO's range lies somewhere between the two camps, with no explanation from CBO as to how it chose to weight the two very different sets of estimates. Siding with the critics of the minimum wage would have produced higher estimates of job loss than what CBO published. Siding with the large and growing body of research finding little or no employment effect would have produced much lower estimates of loss and not ruled out the possibility of job gains.

10. The CBO breaks with the existing research by assuming significant job loss for low-wage adults. As I mentioned earlier, the CBO assumes that the employment effects on adults would be one-third of what they would be for teenagers. As the CBO notes, there is "much less research . . . on the responsiveness of adult employment to minimum-wage increases than on the responsiveness of teenage employment." In fact, the idea that the minimum wage has essentially no effect on adult workers has long been close to the consensus view within the economics profession. In a large *review* of the literature at the beginning of the 1980s, for example, Charles Brown, Curtis Gilroy, and Andrew Kohen concluded that even the "direction of the effect on adult employment is uncertain in the empirical work, as it is in the theory" (p. 524)—and that was before the wave of research since the early 1990s that has questioned the negative employment impact of the minimum wage. Indeed, this view has been so standard, that the CBO studies from the late 1990s and early 2000s that I cited earlier appear to assume no employment effects on adults. Since the CBO concludes that 88 percent of workers affected by a minimum-wage increase are not teenagers, this unconventional assumption has a large impact on their final calculations.

11. Critics and opponents of the minimum wage agree that employment effects are not the only aspect of the minimum wage that should factor into decisions about the policy. In their book *Minimum Wages*, critics David Neumark and William Wascher write:

> But the existence of disemployment effects does not necessarily imply that minimum wages constitute bad social policy. As with many government rules and regulations, a higher minimum wage entails both benefits and costs. Thus, the question is not whether there are any costs to a higher minimum wage, but instead whether the tradeoffs between the costs and the benefits are acceptable . . . (PP. 141–42)

And minimum-wage supporter *Jared Bernstein* makes a similar point: "even if [critics] are right . . . the beneficiaries far outweigh those displaced." (Or see liberal columnist Harold Meyerson's tweet: *@HaroldMeyerson*: CBO: Minimum wage hike will help 33 workers for every 1 it hurts. Pretty damn good ratio.)

Several commentators have made a more forceful version of this argument, suggesting that if the minimum wage isn't causing some amount of job loss, it probably isn't being set high enough. The unconventionally liberal *Matt Yglesias*, for example, writes:

> If the White House genuinely believes that a hike to $10.10 would have zero negative impact on job creation, then the White House is probably proposing too low a number. The outcome that the CBO is forecasting—an outcome where you get a small amount of disemployment that's vastly outweighed by the increase in income among low-wage families writ large—is the outcome that you want. If $10.10 an hour would raise incomes and cost zero jobs, then why not go up to $11 and raise incomes even more at the cost of a little bit of disemployment?

This view is shared, in almost identical terms, by the not-so-liberal Josh Barro in a post titled "*If Your Minimum Wage Increase Doesn't Raise Unemployment, You Didn't Raise The Minimum Wage Enough*":

> . . . a minimum wage increase can cause a modest rise in unemployment and still be a good policy idea, so long as it has more than offsetting positive effects. And the minimum wage tradeoff presented by CBO looks awfully favorable. For every person put out of work by the minimum wage increase, more than 30 will see rises in income, often on the order of several dollars an hour. Low- and moderate-income families will get an extra $17 billion a year in income, even after accounting for people who get put out of work; for reference, that's roughly equivalent to a 25 percent increase in the Earned Income Tax Credit.

We can only ask CBO to lay out the likely consequences of particular policies. Once tradeoffs are involved, we need to make the value judgments that CBO can't make for us. Much of the media coverage has hyped the mid-range job-loss number and what that number means for the political prospects of proposed increase, but the same coverage has done little or nothing to explore any tradeoff between higher incomes and fewer jobs.

12. We need to have a realistic understanding of the low-wage labor market. A range of people—young, old, men, women, white, black, Latino, Asian, full-time and part-time, less-educated and college-educated—work in low-wage jobs, many for large parts of their working life. But, an important feature of low-wage jobs is that they tend to have high turnover. Even if half the workers in a low-wage workplace are in stable long-term jobs, the other half of positions might turnover completely once or even twice in a year.

High turnover is an important context to keep in mind when evaluating the costs and benefits of the minimum wage. Even if the CBO's central estimate of job loss is correct, very few low-wage workers will receive pink slips. Given high turnover, employers who want to reduce employment are much more likely to make any adjustments implied by the CBO estimates through attrition—failing to replace a few percent of the workers who leave on a regular basis.

Workers looking for jobs at the new, higher minimum wage may be looking in a slightly smaller job pool, for a slightly longer period of time. But, when they find a job, it will pay substantially more than the job they would have found somewhat more quickly at the old, but lower minimum wage. Given this reality and the CBO numbers, which suggest that the minimum wage yields a large net transfer of income from employers to low-wage workers as a group, it is hard to imagine that any low-wage workers would be worse off on an annual basis after the minimum-wage increase. (As my colleague Dean Baker puts it, unlike many other policies, including trade agreements, patent protection, or fiscal austerity, there are no "*designated losers*" with the minimum wage.)

13. Whenever we're talking about employment effects, we need to be sure that the conversation includes macroeconomic policy. In the current context of high unemployment, the easiest way to make up for negative employment effects of any policy is to be sure that we are pursuing appropriately expansionary macroeconomic policy. To a first approximation, labor-market institutions such as the minimum wage, unemployment insurance benefits, and unions determine the distribution of wages, benefits, and incomes, while macroeconomic policy determines the level of employment. There may be circumstances where labor-market institutions begin to act as important constraints on employment, but it is hard to argue that we are anywhere near there now, or even that we have been anywhere close in the last three decades. (For example, we saw no signs of rising inflation at the end of the 1990s and into 2000, even when the unemployment rate hovered for an extended period near 4 percent.) If opponents of the minimum wage are genuinely concerned about the fate of low-wage workers, they should be pushing for appropriately expansionary macroeconomic policy, not fighting policies that make low-wage workers as a whole substantially better off.

RESPONSE BY THOMAS E. PEREZ TO QUESTIONS OF SENATOR HARKIN, SENATOR CASEY, SENATOR ALEXANDER, SENATOR SCOTT, SENATOR ISAKSON, SENATOR MURKOWSKI, AND SENATOR HATCH

SENATOR HARKIN

Question 1. A lot of States, including your home State of Maryland, are taking the initiative to raise their own wages in response to Federal inaction. I applaud these States for acting to support their workers and their economy, but I know that State action alone is not enough. Why is it important for the Federal Government to act to raise wages for workers across the country, not just on a state-by-state basis?

Answer 1. You are right that we are seeing a tremendous amount of momentum on this issue. Twenty-five States (plus the District of Columbia) have now passed a minimum wage that exceeds the Federal level. Many have acted to give their low-wage workers a raise just in the last year. Just weeks after the committee's hearing, Connecticut and my home State of Maryland became the first two States to enact a minimum wage of $10.10 an hour, and, in late April, lawmakers in Hawaii passed legislation to do the same by 2018. Prince George's County, MD, and Montgomery County, MD, where I reside, will each see increases in their minimum wage rates starting later this year.

While I, too, applaud these State efforts, it's important that the Federal Government take action for the following reasons:

- More than half of the States in this country still allow employers to pay as little as $7.25 per hour. The buying power of that wage has declined by more than 8 percent since it was enacted almost 5 years ago. In that same time period, we know that nationally the cost for rent has increased by more than 4 percent; grocery costs are up nearly 8 percent; child care is up more than 9 percent; and mass transit costs are up 12.5 percent. That means Americans at the bottom of the income ladder have been stretched thin, and in most cases, are falling behind. No one should be left behind based on where they live. We as a Federal Government have an obligation to look out for the least among us; it's important that the Federal Government improve the standard of living for all Americans as much as possible.
- Nationally, a raise to $10.10 would benefit 28 million workers, lifting about 2 million out of poverty. A raise in the minimum wage will put more money in peo-

ple's pockets, which they will pump back into the economy by spending it on goods and services in their communities. This isn't just economic theory. I've spoken with small business owners and CEOs of large businesses who all tell me the same thing: more money in the hands of workers will inevitably be spent in their stores, improving their bottom lines.

Therefore, it's vitally important that despite the great momentum we see around the country, the Congress must act to raise the wage for all Americans.

SENATOR CASEY

It is estimated that a minimum wage increase to $10.10 would add $1 billion in GDP and 3,800 new jobs to Pennsylvania's economy, providing a $1,500 boost to the average annual income of low-wage workers.[1] In Pennsylvania alone, a minimum wage increase is estimated to raise the pay of over 600,000 women and lift over 127,000 workers out of poverty (roughly 4.6 million workers will be lifted out of poverty across the United States).[2] You have traveled extensively across the country talking with workers and employers about the effects of a minimum wage increase.

Question 1. What have you heard from employers, particularly small business owners, about the effects of a minimum wage increase on their business' revenues? Do the employers you have spoken with agree that boosting the incomes of low-wage workers will add more money and encourage more spending in local economies and, thus, lead to increased revenues?

Answer 1. I've met with small business owners and the CEOs of large companies who know that higher wages for workers can be good for the bottom line. For example, Amanda Rothschild of Baltimore helps to run a small coffee shop called Charmington's. In the days after opening their doors just a handful of years ago, they realized that they needed help. So, they put up the help wanted sign and hired their first employee, paying her just slightly above the minimum wage. Charmington's has since hired more employees and what Amanda has told me is that by paying above the current Federal minimum wage, she's able to retain employees and cut down on training costs. The first employee who was hired at Charmington's is still there. But, Amanda also says that it's not enough for employers to pay their employees more. She wants to see the minimum wage raised so that the low-wage workers who live in her community can afford to spend money in her café. In short, she wants more business.

Subsequent to the committee's hearing, I traveled to Massachusetts where I met with the owners of a small health and wellness store outside of Boston called Cambridge Naturals. "Every dollar we can invest in somebody comes back to us because they learn about our products and feel invested in our business," co-owner Elizabeth Stagl told me. At a roundtable discussion at the store, David Sandberg, owner of Porter Square Books, said he has always paid higher starting wages to his employees, but that it's time for a nationwide minimum wage increase to level the playing field for all businesses.

It is clear that despite the arguments that a minimum wage increase would hurt small businesses and harm the economy, most small business owners disagree. In fact, a recent survey released by the Small Business Majority finds that 57 percent of small business owners support raising the minimum wage to $10.10 per hour.

Question 2. Based on your conversations with employers and workers, as well as data collected and studied by the Department of Labor, what are your conclusions on the effects we can expect to see on unemployment with a higher Federal minimum wage? Historically, what effects have minimum wage increases had on employment?

Answer 2. Researchers have found little to no negative impact on employment from the modest increases in the minimum wage. Since 1938, the national minimum wage has been raised 22 times, under both Democratic and Republican administrations with broad, bi-partisan support.

Studies have shown that minimum wage increases lead to "little or no employment response[3]":

[1] Estimates are from Economic Policy Institute (EPI) "Raising the Federal Minimum Wage to $10.10 Would Lift Wages for Millions and Provide a Modest Economic Boost". 12/19/2013

[2] Ibid, Bureau of Labor Statistics (accessed 11/18/2013), and Washington Post "Economists agree: Raising the minimum wage reduces poverty" by Mike Konczal, 1/4/2014.

[3] Schmitt, John. 2013. "Why Does the Minimum Wage Have No Discernible Effect on Employment?" Center for Economic and Policy Research.

• Comparing 288 pairs of contiguous U.S. counties with minimum wage differentials from 1990 to 2006 finds "no adverse employment effects" (Dube, Lester, and Reich, 2010).

• A meta-analysis of the minimum wage research published since 2000 concludes, "The weight of that evidence points to little or no employment response to modest increases in the minimum wage" (Schmitt, 2013).

• Researchers [4] have noted that even this distribution of studies is biased because studies finding large positive effects on employment are likely not to be published while studies finding large negative effects on employment are published.

SENATOR ALEXANDER

Question 1. The Congressional Budget Office was created by the Congressional Budget and Impoundment Control Act of 1974. The office is supposed to be non-partisan and the Director shall be selected "without regard to political affiliation and solely on the basis of his fitness to perform his duties." On February 18, the Congressional Budget Office released a report on economic and employment effects of raising the minimum wage. The CBO's central estimate was that a minimum wage increase to $10.10 "would reduce employment by roughly 500,000 in the second half of 2016." Do you agree with the CBO report's findings that raising the minimum wage would have a negative effect on employment? Do you agree that the "CBO is responsible for providing nonpartisan and thoughtful analysis to the Congress?"

In regards to their report on the minimum wage, do you agree that they carried out their own mission of providing "nonpartisan and thoughtful analysis?"

Answer 1. From my time working for Senator Kennedy, I developed respect and appreciation for the Congressional Budget Office and the work that it does. I do believe that CBO conducted its research and analysis carefully and thoughtfully, and without intending to reach an outcome that favored one political party over another.

In fact, many of the CBO's findings are consistent with findings of the President's Council of Economic Advisors (CEA). For example, both CBO and CEA conclude that millions of people would benefit from an increase in the minimum wage, that poverty would be reduced, and that a raise would increase the overall wages going to lower income households. The CBO said that its central estimate is a 0.3 percent decrease in employment, but also acknowledged that the impact could be essentially zero. With respect to the latter, that finding would be in keeping with the recent academic literature on how raising the minimum wage affects employment. A letter signed in January of this year by 600 economists, including seven Nobel laureates, described the literature as follows: "[T]he weight of evidence now show[s] that increases in the minimum wage have had little or no negative effect on the employment of minimum-wage workers, even during times of weakness in the labor market." [5]

Question 2. As I mentioned at the hearing, in February, Federal Reserve Chair, Janet Yellen testified before the Senate Banking Committee. When asked about the CBO report, she replied: "The CBO is as qualified as anyone to evaluate that literature" and that she "wouldn't want to argue with their assessment." Do you share her view? Yes, or no.

Unlike the President's Council of Economic Advisors, isn't the CBO nonpartisan, and the Director chosen without regard to political affiliation and solely on the basis of fitness to perform his duties?

Answer 2. See response to Ranking Member Alexander's Question #1.

Question 3. Last year, economist and *New York Times* columnist Paul Krugman wrote that most economists would "agree that setting a minimum wage of, say, $20 an hour would create a lot of problems." Do you agree? If so, should indexing of future minimum wage increases sunset once the minimum wage gets to $20? Should there be a cap on the minimum wage at all?

Answer 3. The President supports a proposal to raise the minimum wage in several gradual steps to $10.10 per hour by 2016. I am not aware of any proposals to raise the Federal minimum wage to $20 an hour. With respect to indexing the minimum wage to inflation, many economists argue that it's a more natural, market-driven approach and smart economics to do so. Doing so builds in predictability for wage increases. Subsequent to the committee's hearing, Subway CEO Fred DeLuca

[4] Doucouliagos, Hristos and T. D. Stanley. 2009. "Publication Selection Bias in Minimum-Wage Research? A Meta-Regression Analysis." British Journal of Industrial Relations, vol. 47, no. 2, PP. 406–28

[5] Economic Policy Institute (EPI) "Over 600 Economists Sign Letter in Support of $10.10 Minimum Wage," *http://www.epi.org/minimum-wage-statement/*.

stated in an interview with CNBC that he embraced the idea of indexing the minimum wage to inflation "so that way everybody knows what they can count on."[6] I've also spoken with small business owners who support the President's proposal and like the idea of tying the minimum wage to inflation for exactly that reason: labor cost predictability. They've told me that they'd rather see regular, incremental increases in the minimum wage instead of sporadic larger step increases in the wage over a short period of time. Labor cost predictability helps them budget for the long term and helps their bottom lines.

Question 4. The President issued an Executive order to raise the minimum wage for employees working on Federal contracts to $10.10 per hour. How many workers will be affected by the Executive order? Hundreds? Thousands? Hundreds of thousands?

Will the Executive order apply to employees who work for private employers on government property?

The Executive order indexes future increases to the minimum wage to the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI–W). According to the CBO, that index only applies to 32 percent of U.S. residents. Why didn't the Executive order cite to a more commonly used index, such as the Consumer Price Index for All Urban Consumers (CPI–U)?

The Executive order calls for the Department of Labor to issue regulations by October 1. Does the Department plan on following the formal notice and comment procedure and allow the public to comment on the proposed rule before it is finalized?

Answer 4. Executive Order 13658 is expected to benefit hundreds of thousands of people working under contracts with the Federal Government who are making less than $10.10 an hour. The Executive order will generally apply to new contracts where the solicitation is issued on or after January 1, 2015 and where the contract is: (i) (A) a procurement contract for services or construction; (B) a contract for services covered by the Service Contract Act; (C) a contract for concessions, including any concessions contract excluded by Department of Labor regulations at 29 CFR 4.133(b); or (D) a contract entered into with the Federal Government in connection with Federal property or lands and related to offering services for Federal employees, their dependents, or the general public; and (ii) the wages of workers under such contract are governed by the Fair Labor Standards Act, the Service Contract Act, or the Davis-Bacon Act.

The CPI–W is a standard cost-of-living adjustment for working Americans. Currently Social Security is indexed by CPI–W and increases to the Executive order minimum wage are to be determined by the CPI–W. The Department believes that the CPI–W better encompasses the group of workers that will be affected by this EO.

The Department intends to fully comply with the Administrative Procedure Act in development of regulations to implement Executive Order 13658.

Question 5. The Department of Labor (DOL) is promulgating a proposed rule that would require employers and their attorneys or consultants to publicly disclose relationships where advice is given on issues related to union organizing, otherwise known as the "persuader" rule. The proposed rule was first introduced in June 2011. The American Bar Association submitted public comments opposing the proposed rule. The Tennessee Bar Association is concerned the proposed rule would force Tennessee lawyers to disclose information about their representation of clients that would otherwise be entitled to confidential treatment under our State's lawyers ethics rules and would ultimately discourage them from providing important legal counsel.

In early March, a DOL spokesman said the rule would not be finalized in March, as DOL previously predicted. What are the specific reasons for the delay and when do you expect the rule to be finalized?

Answer 5. Several factors have contributed to the delay in finalizing the persuader rule, including the volume of comments received and our interest in correctly concluding our analysis before publishing a final rule. Prior to the hearing, in early March, the Department indicated that we would not meet the March 2014 date that was listed in the Fall 2013 Semi-Annual Regulatory Agenda. A new date for publication of the final rule will be provided in the Department's Spring 2014 Regulatory Agenda.

[6] Katie Little, "Subway CEO: How I'd Solve the Minimum Wage Debate," CNBC, May 7, 2014, *http://www.cnbc.com/id/101647378*.

Question 6. According to the Fall 2013 Unified Agenda, DOL planned to finalize the "persuader rule" in March 2014. However, according to news reports, the publication is delayed. In the notice of proposed rulemaking, issued on June 21, 2011, DOL estimated that the rule will cost approximately $826,000 annually, and it did not monetize benefits. However, an April 2013 report by the Manhattan Institute estimates that the rule could cost between $7.5 billion and $10.6 billion during the first year of implementation and between $4.3 billion and $6.5 billion per year thereafter. Executive Orders 13563 and 12866 require rules that are likely to have an annual effect on the economy of $100 million or more to undergo a rigorous cost-benefit analysis, known as a regulatory impact analysis. What steps have you taken to ensure that DOL has performed a proper economic analysis of the "persuader rule" before it is finalized, including, if needed, a regulatory impact analysis that quantifies both costs and benefits?

Answer 6. In the June 21, 2011 proposed rule, the Department estimated that the rule's total annual cost on filers will be approximately $826,000, and therefore would not be considered economically significant under section 3(f) of E.O. 12866. The April 2013 report by the Manhattan Institute was issued after the comment period for the proposed rule had already closed in September 2011. Therefore, the report cannot be considered by the Department in finalizing the rule. Nonetheless, timely comments from other organizations that also addressed the proposal's burden analysis provided similar analyses estimating that the rule's cost could be much larger than the Department's estimate. The Department will fully address the rule's estimated cost upon publication of a final rule.

Question 7. I read an op-ed from the *USA Today* last year written by a mother down in Arkansas who started a consignment business for children's clothing out of her home. Today, her business has grown to over 62 locations in 20 States. Her entrepreneurial business model has given families the opportunity to earn a little extra money by selling their children's old clothes. Yet, the Wage and Hour Division has investigated the mother because she doesn't pay the parents who volunteer at these events to get the first crack at shopping before the general public. Is this a wise use of the agency's limited resources?

You told this committee that your priority as Secretary would be "jobs, jobs, jobs"—does going after small businesses like this mother who started her own children's clothing consignment business conflict with that?

Answer 7. The Department of Labor's Wage and Hour Division does not have and has never had an enforcement initiative aimed at consignment shops or similar operations. The referenced business is a for-profit company that had annual gross revenues in the range of $1.6 million to $1.9 million and is covered by the Fair Labor Standards Act's minimum wage and overtime protections. In late 2012, Wage and Hour began an investigation that revealed that the business had violated the FLSA by failing to pay approximately 40 of its employees the wages due under the FLSA. The business acknowledged these violations and agreed to pay the approximately $6,400 in back wages due its employees. The business was also informed that families who consigned items for sale at the business's events (i.e., they prepared items for sale, brought them to the events, dropped them off, and then left) were not employees under the FLSA. It was further explained to the business, however, that consignors who actually worked at the events (performing jobs that paid employees also performed, such as operating cash registers, providing security, and assisting in the sorting and sale of everyone's items) were not volunteers, but in fact employees. The Department did not impose any penalties and did not pursue the matter further. The Department has communicated the conclusion of the matter to the business. Considering the full circumstances, the Department believes that the measured resources devoted to the matter were appropriate. However, the company in question has now filed suit against the Department in Federal court, and we are currently in litigation on the matter.

Question 8. Recent media reports indicate that an Occupational Safety and Health Administration (OSHA) inspector investigating a February 2010 accident at SeaWorld's Orlando facility may have been collaborating with animal rights activists during the course of her investigation. In September 2013, SeaWorld submitted a Freedom of Information Act (FOIA) request seeking additional information. Have all DOL offices and agencies fully responded to that FOIA request? What specific steps are you taking to ensure all DOL investigators are not engaging in improper activity during the course of an investigation?

Answer 8. To date, the Department has produced six interim responses to SeaWorld's FOIA request. As the Department indicated to SeaWorld in these responses, the Department is responding to the FOIA request with a rolling produc-

tion and will produce additional responsive material as it is located. The Department has referred the allegations of improper employee conduct to the DOL Inspector General. Based on the outcome of that investigation, DOL will determine what, if any, specific steps must be taken to ensure all DOL investigators are not engaging in improper activity during the course of an investigation.

Question 9. On March 18, the President directed the Department of Labor to promulgate new rules amending the Fair Labor Standards Act (FLSA) regulations on overtime exemptions. According to the President's speech announcing the plan, he noted the weekly salary test should be increased, and you have publicly stated that in addition, the "primary duty" test should be changed for the executive, administrative, and professional exemptions under the law. What other specific changes is DOL looking at in regards to this new rule?

Your staff indicated that the DOL is unlikely to issue a Notice of Proposed Rulemaking (NPRM) on overtime regulations, before the Department issues a rule on the Executive order increasing the minimum wage for Federal contractors by October 1, 2014. Is this correct? If not, when do you expect the DOL to issue the NPRM on overtime?

How long has the DOL been considering re-writing the regulations on overtime under the FLSA? Have you met with stakeholders on the issue? If so, please provide the names of attendees and the dates of those meetings.

Answer 9. We have started our work in response to the President's direction to the Department to update the regulations regarding overtime protection for executive, administrative, and professional employees.

The Department is considering updating existing protections in keeping with the intention of the Fair Labor Standards Act, addressing the changing nature of the American workplace, and simplifying the overtime rules to make them easier for both workers and businesses to understand and apply.

The Department is committed to providing meaningful opportunities for the public to participate in this initiative. To date, we have already communicated directly with representatives of major human resources organizations such as the Society for Human Resource Management (SHRM), the HR Policy Association, corporate CEOs (including the Business Roundtable) and representatives of local chambers of commerce. We have several opportunities for additional engagement tentatively scheduled and are working with the Small Business Administration's Office of Advocacy to identify key opportunities for broad stakeholder engagement. A list of such opportunities for public engagement will be made available in the near future and we will keep you informed of these activities. Should you have parties you wish to have included in such engagements, we would welcome your suggestions. The Department's Spring 2014 Plan and Agenda will include a timeline for the issuance of a proposed rule. I look forward to working with members of the committee as we move forward.

SENATOR SCOTT

Question 1. In April 2013, Chairman Darrell Issa of the House Committee on Oversight and Government Reform issued a subpoena to you to produce all personal e-mails relating to official Department of Justice (DOJ) business. DOJ acknowledged that about 1,200 e-mails existed. Instead of producing the documents, DOJ only permitted in camera review of the entirety of 35 e-mails, and of the remaining approximately 1,165 e-mails everything was redacted except for the to, from, and date. Therefore, you are noncompliant with a validly issued congressional subpoena. Will you produce all un-redacted personal e-mails relating to official government business to Chairman Issa?

Answer 1. Specific questions regarding Department of Justice processes or documents should be directed to DOJ.

SENATOR ISAKSON

Question 1. Secretary Perez, as you are aware, in 2007, Congress extended the minimum wage to American Samoa, which required the territory to increase its minimum wage incrementally until American Samoa reached the Federal minimum wage. In subsequent years, Congress postponed that increase. Recently, a *Wall Street Journal* editorial discussed this issue, identifying the discrepancy in pay between the employees working in tuna canneries in California and Georgia versus those working in American Samoa. (Attached is the full text for the record.) As you know, one cornerstone of the President's budget is raising the minimum wage. Given this, please describe the Administration's position on postponing the minimum wage increase for American Samoa that is scheduled to take effect on September 30, 2015.

[The Wall Street Journal, March 16, 2014]

UN-AMERICAN TUNA—WHY YOUR KID CAN'T GET A TUNA SANDWICH AT SCHOOL

Nutritionists say fish is brain food, so you might think the U.S. Government would make it available in school cafeterias. Yet for some 3 years tuna has been hard to come by when the bell rings for lunch across America. This absurdity is brought to you by the Department of Agriculture's "buy American" policy for school lunches.

The only tuna that qualifies for "buy American" is StarKist. But in March 2011 the Food and Drug Administration inspected StarKist's American Samoa processing operation and found it wasn't up to health standards.

Two other large tuna suppliers, Bumble Bee Foods and Chicken of the Sea International, might have stepped in. But they're not allowed to bid because their fish can be landed on vessels that are not U.S.-flagged and the skinning, gutting and boning of their catch is done in Thailand. Apparently that makes it un-American. Never mind that the tuna loins are still sent to the United States where workers add 80 percent of the value of the final canned product. Or that those jobs–1,000 or so—in California and Georgia tend to pay between $12 and $18 an hour.

The fish tale gets more preposterous. StarKist takes its haul from the same Asia-Pacific waters as its competitors on both U.S.- and foreign-flagged ships. But the company says its tuna are segregated and only fish landed on U.S. vessels qualify for USDA purchases. (Yes, segregated tuna!) Its tuna are cleaned and processed in American Samoa, where most of the cannery workers are non-Americans from nearby independent Samoa.

The Government Accountability Office reported in 2011 that the median cannery wage on the island in 2010 was $4.76 an hour, well below the U.S. Federal minimum of $7.25. The company says it pays up to $10 an hour. But in 2007 when StarKist's parent company Del Monte was based in Nancy Pelosi's San Francisco district, Democrats made an exception for American Samoa when they raised the minimum wage. StarKist is now owned by Korea's Dongwon Industries, but in 2012 American Samoa again won a carve-out from the U.S. minimum wage. For the record, Bumble Bee is owned by a U.K. private equity firm and Chicken of the Sea is Thai-owned.

To sum up: The USDA says a foreign-owned company that catches some of its tuna on foreign-flagged boats and cans the tuna mostly with foreign workers who make less than the U.S. minimum wage qualifies as "American." But two foreign-owned companies that buy some of their tuna from foreign-flagged operations and can their tuna with American workers is "un-American."

FDA inspectors gave StarKist's American Samoa facility a clean bill of health in July 2013, but the USDA has made no new tuna solicitations for school lunches. Congress' 2014 spending bill, passed in January, directed the USDA to re-evaluate its buy-American tuna practices.

The mere suggestion of more competition provoked a tuna meltdown from Samoa's Delegate to Congress Eni Faleomavaega. In a Jan. 27 op-ed in the Hill newspaper, he made unsubstantiated allegations of child labor by StarKist's competitors. The USDA evaluation report is due by Monday. What is really un-American seems to be competent government.

Answer 1. Congress has the authority to postpone increases in the minimum wage in certain territories and has done so for both the American Samoa and the Commonwealth of Northern Mariana Islands. In the case of American Samoa, Congress recognized the uniqueness of the single-industry economy, which is entirely dependent on the tuna fishing and processing industries. They do not enjoy the economic security possessed by a diversified economy like those on the mainland. However, the issue of increasing the minimum wage in the American Samoa remains important, and Congress should seriously consider the impact of any future delays.

Question 2. Secretary Perez, does the Administration support policies that would allow political entities such as States or territories to "opt out" of proposed minimum wage increases because of high unemployment rates? Or should all political entities adhere to the same wage scheme?

Answer 2. The Fair Labor Standards Act, the law that provides for the Federal minimum wage, covers the vast majority of private sector workers, as well as State and local governments. The Federal minimum wage establishes a wage floor for all workers across the country and levels the playing field for all States and employers.

Question 3. My staff has heard from several contractors who own and operate restaurants on military bases. They have described a scenario where they will have to

pay an additional health and welfare benefit of $3.81 per hour on top of the Executive order's minimum wage increase to their workers.

The starting wage in these locations will therefore climb to $13.91 per hour. The result is that these owners could be forced to close restaurants on military bases, because the costs would be too expensive. The goal is to provide affordable meal options and services to our military and their families. These restaurants also provide job opportunities for family members of military service men and women stationed at our bases. Closing one restaurant would eliminate 13–20 jobs and deprive our military and their families of a place to enjoy a quick meal.

Do these sorts of skyrocketing costs discourage small business owners from wanting to enter into contracts with the Federal Government to provide services for military members and their families?

Do rising costs of some of these contractors concern you?

Answer 3. Last summer, in response to a request that the Department review the wages being paid to fast food workers employed by contractors with the Federal Government, the Wage and Hour Division (WHD) found that these workers were being paid substandard wages and were entitled to fringe benefits. Following longstanding regulations, the agency applied the standard, nationwide health and welfare fringe benefit that applies to all workers covered by the Service Contract Act (SCA). This spring, the Department of the Navy requested that we reconsider the amount of health and welfare benefits—$3.81 per hour—as well as the wage rates and vacation and holiday pay that we implemented last summer. After careful consideration of that request, our regulations, and relevant data, the WHD has determined that the standard, nationwide health and welfare benefit rate should be adjusted on wage determinations applicable to the fast food industry. Our determination is that contractors employing fast food workers on SCA-covered contracts will have to pay wage rates based on applicable Bureau of Labor Statistics data; $.66 per hour in health and welfare benefits; $.17 per hour in vacation pay for workers who have been employed for more than a year; and $.09 per hour in holiday pay. We believe that these wage and benefit rates more accurately reflect the conditions in the industry and are fair for employers and for workers.

Question 4. The President recently ordered the Department of Labor to update regulations that establish which employees qualify for overtime under the Fair Labor Standards Act (FLSA). The President also indicated that the minimum salary threshold that applies to "white collar" exemptions needed to be updated. While your Department contemplates such a significant expansion in the overtime exemption, how do you plan to address the concerns of employers and small businesses during the construction of your proposal? Unlike proposals by the Occupational Safety and Health Administration, proposals issued by the Wage and Hour Division are not subject to the Small Business Regulatory Enforcement Fairness Act (SBREFA). What plans to do you have to obtain input and hear from small businesses as you move forward?

Answer 4. In the coming weeks, I and my staff will be reaching out to businesses, workers, and State and local government to get their ideas about the best way to update the overtime rules for executive, administrative and professional employees to adapt them to the modern workplace in a way that makes them simpler and easier to follow. The Department also expects to work with the Office of Advocacy of the U.S. Small Business Administration to host D.C.-based and regional listening sessions. The proposed rule also will go through the formal notice and comment process. I look forward to working with members of the committee as we move forward.

SENATOR MURKOWSKI

Mr. Secretary, I'm very concerned about the lack of process and transparency surrounding recent efforts to raise the minimum wage. As you heard at the hearing, this was the third hearing the HELP Committee has held on this issue without actually addressing the pending legislative proposals and their potential impacts on our economy and labor market. Last year, the President proposed raising the minimum wage to $9.00 per hour but last month, on February 12, 2014, the President signed an "Executive Order Establishing a Minimum Wage for Contractors" (hereafter the "Executive Order") unilaterally increasing the Federal minimum wage for Federal contractors to $10.10 per hour following an announcement in his State of the Union address.

Question 1. How did the Administration arrive at this proposal to increase the minimum wage for Federal contractors? Please explain.

Answer 1. Section 1 of Executive Order 13658 sets forth a general policy of the Federal Government that increasing the hourly minimum wage paid by Federal contractors to $10.10 will increase efficiency and cost savings for the Federal Government. The Order states that raising the pay of low-wage workers increases their morale and the productivity and quality of their work, lowers turnover and its accompanying costs, and reduces supervisory costs. The Order further states that these savings and quality improvements will lead to improved economy and efficiency in government procurement.

Question 2. What steps did you or others within the Department of Labor perform to assist in this decision? Please explain.

a. Did you or others within the Department of Labor conduct any studies, perform any analysis, or otherwise consider the effects or impacts, positive or negative, of raising the minimum wage for Federal contractors?

b. Please describe what studies, analyses, documents prepared, or other considerations conducted.

c. Please provide me with a copy of these studies, analyses, other documents, or explanation of other considerations relied upon in assessing the impacts of this policy decision?

Answer 2. The Executive order was cleared through the normal interagency process.

Question 3. If you or others within the Department of Labor were not involved, who was? If you were not involved, why weren't you involved?

Answer 3. See response to Senator Murkowski's Question #2.

Question 4. Do you believe the President has the ability to issue such an Executive order? If so, under what authority? If not, please explain.

Answer 4. The President issued Executive Order 13658 pursuant to his authority under "the Constitution and the laws of the United States," expressly including the Federal Property and Administrative Services Act (Procurement Act), 40 U.S.C. 101 et seq. 79 Fed. Reg. 9851. The Procurement Act authorizes the President to "prescribe policies and directives that [he] considers necessary to carry out" the statutory purposes of ensuring "economical and efficient" government procurement and supply. 40 U.S.C. 101, 121(a).

In particular, section 1 of Executive Order 13658 sets forth a general policy of the Federal Government that increasing the hourly minimum wage paid by Federal contractors to $10.10 will increase efficiency and cost savings for the Federal Government. As explained in the Order, raising the pay of low-wage workers increases their morale and the productivity and quality of their work, lowers turnover and its accompanying costs, and reduces supervisory costs. These savings and quality improvements will lead to improved economy and efficiency in government procurement.

Question 5. Do you believe the Executive order can be enforced against any other laws or regulations not expressly mentioned in the Executive order? If so, please explain and cite the relevant laws and/or regulations.

Answer 5. Section 4 of Executive Order 13658 provides that the Department must issue regulations by October 1, 2014, to the extent permitted by law and consistent with the requirements of the Procurement Act, to implement the requirements of the Order, including providing exclusions from the requirements set forth in the Order where appropriate. It also requires that, to the extent permitted by law, within 60 days of the Department issuing such regulations, the Federal Acquisition Regulatory Council must issue regulations in the Federal Acquisition Regulation to provide for inclusion of the contract clause in Federal procurement solicitations and contracts subject to the Executive order.

Additionally, this section states that within 60 days of the Department issuing regulations pursuant to the Order, agencies must take steps, to the extent permitted by law, to exercise any applicable authority to ensure that contracts for concessions and contracts entered into with the Federal Government in connection with Federal property or lands and related to offering services for Federal employees, their dependents, or the general public, entered into on or after January 1, 2015, consistent with the effective date of such agency action, comply with the requirements in sections 2 and 3 of the Order. The Order further specifies that any regulations issued pursuant to this section should, to the extent practicable and consistent with section 8 of the Order, incorporate existing definitions, procedures, remedies, and enforcement processes under the Fair Labor Standards Act; the Service Contract Act; and the Davis-Bacon Act.

Question 6. Do you know how many workers the Executive order will affect?

a. If yes, how many? Please provide a breakdown of Federal contractors, subcontractors and tipped workers.

b. If no, why not?

Answer 6. Executive Order 13658 is expected to benefit hundreds of thousands of people working under contracts with the Federal Government who are making less than $10.10 an hour.

Question 7. As I understand it, the majority of Federal contractors make well above the current Federal minimum wage of $7.25 per hour. What is the rationale for raising the minimum wage for a segment of workers (Federal contractors) the majority of whom already make more than the current Federal minimum wage?

Answer 7. The increase to $10.10 an hour will make a difference for a number of workers, including dishwashers, fast-food workers, laundry workers, and many other employees of Federal contractors. In addition, the Order states that increasing the hourly minimum wage paid by Federal contractors to $10.10 will increase efficiency and cost savings for the Federal Government. The Order also states that raising the pay of low-wage workers increases their morale and the productivity and quality of their work, lowers turnover and its accompanying costs, and reduces supervisory costs. The Order states that these savings and quality improvements will lead to improved economy and efficiency in government procurement.

Question 8. Following the President's State of the Union address last month, you participated on a national teleconference with the Vice President to discuss the President's announcement to increase the minimum wage for Federal contractors. At one point during that call, the Vice President announced that this Executive order is an effort to require all employers to pay all their employees $10.10/hour in the absence of Federal legislation.

a. Do you agree with the Vice President's position? If so, why? If not, why not?

b. Your Department may be responsible for enforcing this position. How do you intend to require all employers pay all employees $10.10 per hour?

c. Do you believe the Department has the authority to enforce this through the regulatory process? If so, how? Under what authority?

d. Have you or anyone within your Department performed any analysis to determine how this position might impact the labor market, the economy, labor costs, or employers—particularly small business owners?

i. If so, please describe and provide me with a copy of such analysis.

ii. If not you or someone within your Department, are you aware of any analyses performed to determine the impact an increase in the labor costs for employers of non-Federal contractors will have on employers' employment decisions for non-Federal contract employees?

iii. If so, please describe and provide me with a copy of such analysis.

Answer 8. The President is committed to doing whatever he can to raise working Americans' wages. He is encouraging business leaders to raise the wages of their employees. He is calling on State and local elected officials to work to raise the wages of citizens in their jurisdiction and for Congress to pass the Fair Minimum Wage Act. Raising the Federal minimum wage to $10.10 would lift wages for approximately 28 million Americans and lift 2 million Americans out of poverty.

SENATOR HATCH

A one-size-fits-all Federal minimum wage, along with the President's proposal to lift the minimum by 39 percent in the near term, fails to account for regional variation in purchasing power and, as a consequence, would unfairly impose larger adjusted costs on businesses in a State like Utah or Iowa than in higher cost regions like the Northeast. For example, if you adjust for differences across States in the purchasing power of a dollar, a Federal minimum wage of $10.10 in a State with prices equal to the national average, requires over $11.50 per hour in a high-cost State like New York and only about $8.80 per hour in a low-cost State like South Dakota—for equal purchasing power. In addition, there are current Federal activities that account for these types of regional variations. Two examples are: Federal pay adjustments for labor-market costs and conditions and mortgage loan limits adjusted for areas with high housing costs.

That being the case, I have two questions:

Question 1a. Why is it equitable to set a one-size-fits-all minimum wage that effectively underpays New York's low-wage workers relative to the average, and forces employers in low-cost areas like South Dakota to pay a premium relative to the average?

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Question 1b. Given that numerous Federal activities, including the setting of pay for Federal workers, make adjustments to account for differences in purchasing power across regions and States, why should similar adjustments *not* be made with regard to the minimum wage?

Answers 1a and b. The Fair Labor Standards Act, the law that provides for the Federal minimum wage, covers the vast majority of private sector workers, as well as State and local governments. The Federal minimum wage establishes a wage floor for all workers across the country. Setting a wage floor levels the playing field for all States and employers.

Question 2. In 2010 and again in 2012, President Obama signed legislation to postpone increasing the minimum wage in American Samoa toward the Federal minimum. His actions were partly in response to findings of possibly severe negative labor market effects by the Government Accountability Office, or GAO. In the case of American Samoa, the President's actions appeared to be an explicit acknowledgement that differences across regions—particularly with regard to the purchasing power of a dollar—mean that a one-size-fits-all approach to the minimum wage just isn't equitable. Nonetheless, the Administration is advocating an eventual 39 percent increase in a single federally mandated minimum wage to apply to all States, independent of purchasing power variations across States and regions. Secretary Perez, can you acknowledge that the negative labor market effects from imposing a national one-size-fits-all increase in the Federal minimum wage will differ from State to State, with greater negative effects in places like Utah, Iowa, or South Dakota where the cost of living is below the national average?

Answer 2. See response to Senator Hatch's Question #1.

In 2011, President Obama identified what he thought was a structural issue for our economy involving adoption of technology and ensuing job losses. At the time, the President said:

> "There are some structural issues with our economy where a lot of businesses have learned to become much more efficient with a lot fewer workers."

And he went on to say:

> "You see it when you go to a bank and you use an ATM, you don't go to a bank teller; or you go to the airport and you're using a kiosk instead of checking in at the gate."

In light of the President's seeming dismay that, for many employers, it is simply cheaper to adopt new technology than to employ more workers, and in light of the current proposal to raise the Federal minimum wage in the near term by 39 percent and to raise the minimum wage for workers who receive tips by over 230 percent, I have two questions:

Question 3a. Do you agree that those increases in the minimum wage will make it more cost-effective for businesses to move away from low-wage labor and toward automation, using such things as touch screen ordering platforms in place of people?

Question 3b. Do you agree that the massive increase in the minimum wage for tipped employees that the President is advocating will almost certainly destroy some existing business models, forcing businesses to fundamentally change the way that they operate?

Answers 3a and b. Technology, jobs, and good wages can and have existed side by side. It's often a legitimate concern that technological innovation can displace jobs done by people, and it does happen. But it's also important to keep in mind that as new technologies are developed and deployed, they come with their own set of needs for real people to be engaged alongside of them.

With respect to the required Federal cash wage for tipped employees, it's important to note that it hasn't been raised above $2.13 per hour in more than two decades. In 19 States, employers can pay as little as $2.13 per hour as long as workers in occupations where tips are received earn enough in tips to meet the $7.25 per hour minimum wage. If not, then the employer has to make up the difference in the pay period. These workers, the majority of whom are women, are three times more likely than non-tipped workers to live in poverty. I believe that we should raise the required cash wage for tipped workers to ensure that their hard work is rewarded, and that their dependence on social safety net programs is reduced.

Furthermore, increasing the cash wage for tipped employees will not destroy existing business models. In seven States, employers are required to pay tipped workers the full minimum wage before tips. Washington is one of those States. Currently, it has the highest State minimum wage in the Nation at $9.32 per hour. Voters in the State enacted an increase in the State's minimum wage in 1998 that also

linked the State's minimum wage rate to inflation thereafter. As a recent Bloomberg article points out, over the past 15 years job growth in Washington continued at an average 0.8 percent annual pace, 0.3 percentage point above the national rate. Payrolls at Washington's restaurants and bars, establishments with business models said to be vulnerable to higher wage costs, have expanded by 21 percent. Poverty there has trailed the national level for at least 7 years. The Washington example shows that a higher minimum wage and an equal wage for tipped workers do not lead to the destruction of existing business models.

Question 4. Economists in the Administration have been pushing a story that essentially says that the large and significant minimum wage increases that the President and Democrats in Congress want to impose on businesses throughout the country will lead to lower turnover costs, which will, according to their argument, mean that employers will end up saving when they are forced to pay more for labor. The idea seems to be that when workers are paid more, they value retention of their position and are less likely to leave their jobs or shirk their responsibilities. As a result, businesses will not need to engage in as many costly searches for employees or deal with as many problems (e.g., sporadic work attendance) with their existing workforce. I wonder if you buy into that story. If so, I wonder whether you can explain to me how it is that private-sector businesses are so inept that, absent a Federal mandate for higher wages, they are unable to figure out that there could be gains available from reducing labor turnover by paying their employees more.

Answer 4. The President's proposal to raise the minimum wage is in line with previous increases and brings us back to the value of the wage in the late 1960s. There have been numerous studies that indicate that under certain conditions, raising wages leads to higher productivity, lower turnover, reduced absenteeism, and reduction in hiring/training costs.

RESPONSE BY HEATHER BOUSHEY, PH.D., B.A. TO QUESTIONS OF SENATOR HARKIN, SENATOR CASEY AND SENATOR MURRAY

SENATOR HARKIN

Question 1. As Dr. Elmendorf testified, the CBO report looked at a range of economic literature on the effects of a minimum wage raise on employment and poverty. So they have given us one reading of these studies. But we know that there are some studies on the minimum wage that have more sophisticated methodologies than others. They look at the actual real world impact of past wage increases, comparing lower wage areas with higher wage areas. What is *your* reading of the current state of economic literature on the minimum wage and its effect? Would you say these are the most reliable studies? What is the conclusion that these studies reach? Why does your reading of the literature differ from CBO's?

Answer 1. Overall, the report by the Congressional Budget Office on the proposed minimum wage increases is well done.[1] They produce quality research and contribute a valuable perspective to the policy debate. Yet my reading of the economics literature on the minimum wage leads me to differ with CBO's conclusions. Overall, their report overstates the effect of raising the minimum wage on employment.[2] The main reason for our disagreement is that I put a stronger weight on the studies you mention, ones that look at neighboring localities with different minimum wages. My professional opinion is that not all these studies are of the same quality, but CBO doesn't exclude lesser quality papers.

While CBO describes some of its thinking in its selection of employment elasticities from the economics literature, their methodology is relatively vague. They state they favor studies that use a methodology that finds small to no employment effects of modest increases in the minimum wage. They consider publication bias in academic journals that would result in the publication of fewer studies that find no employment effect. But their preferred elasticities appear to be about halfway between the elasticities found by their stated favored methodology and more negative estimates.[3]

Question 2. In your testimony, you note that GDP has grown 245 percent since 1968, adjusted for inflation, but poverty has grown and the middle class is barely treading water. Why is this? Where has all that growth gone, and why has it not helped the bottom and middle?

Answer 2. The American economy has changed quite a bit since 1968, but the increasing share of America's income going to the very rich is the most prominent trend. From 1968 to 2012, 70 percent of income growth has gone to the top 1 percent of families.[4] In 1968, the top 1 percent of earners received 11 percent of all income. By 2012, the top 1 percent's share grew to 22 percent of income.[5] That time period

also saw income growth slow for the middle part of the income distribution and stagnant, even declining, incomes for those at the bottom. And the once strong link between productivity and compensation growth severed during this time period. From 1973 to 2011, labor productivity grew by 80 percent. But over that same time period, average compensation only grew by 39 percent.[6] The average worker is no longer reaping the fruits of her labor.

A variety of factors stemming from changes in our economy, such as technological change and increased international trade, and policy actions, or lack thereof, have resulted in this inequitable growth. But the causes for each trend are different. At the bottom of the income distribution, the lack of consistent increases in the minimum wage was responsible for a large portion of rising inequality. About 45 percent of the rising low-end inequality from 1979 to 2009 was due to the declining value of the minimum wage.[7]

Question 3. Last year, the University of Chicago's business school surveyed a panel of roughly 40 economic experts on the minimum wage policy. These economists agreed overwhelmingly, by a 4 to 1 margin, that the benefits of a higher minimum wage outweigh the costs. Do you find that these poll results are representative of the economics profession today, and can you offer some explanations for why this is the case?

Answer 3. I believe the poll results are representative of the economics profession today. In the past 20 years, the economics literature on the minimum wage has shifted the consensus. Careful studies of the economics literature find that increases in the minimum wage have little to no effect on employment.[8] Economists David Card, of the University of California, Berkeley, and Alan Krueger, of Princeton University, looked at the effects of a minimum wage hike in New Jersey by comparing fast food restaurant employment in the State to fast food employment in Pennsylvania which did not increase its minimum wage.[9] Card and Krueger found that the increase in the minimum wage did not reduce employment. Their approach has been generalized in later research. Research by Arindrajit Dube, T. William Lester of the University of North Carolina–Chapel Hill, and Michael Reich of the University of California, Berkeley looked at all of the bordering counties that have different minimum wages between 1990 and 2006.[10] They too found that minimum wage increases did not have a significant effect on employment.

One reason that employment has not been shown to fall due to raising the minimum wage is because higher wages can make workers more productive and therefore more valuable to their employer. Economists call this the "efficiency wages" theory.[11] There is an extensive literature on efficiency wage theory, with notable contributions Nobel Laureates Joseph Stiglitz[12] and George Akerlof,[13] which suggest that paying more than the market-clearing wage can make firms more productive.

In addition, it's possible that a higher minimum wage could make staying in one's job more attractive and thus reduce turnover costs. A 2013 working paper by UMass-Amherst economist Arindrajit Dube, University of North Carolina, Chapel Hill economist William Lester, and UC-Berkeley economist Michael Reich finds that a higher minimum wage leads to fewer so-called "hires and separations," or worker turnover.[14] Other empirical studies suggesting that a higher minimum wage—or a "living wage" covering basic needs—can reduce labor turnover include studies of workers in San Francisco[15] (including airport[16] and homecare workers[17]) and Los Angeles.[18] Lower turnover costs could potentially allow businesses to overcome the increased cost of paying a higher wage.

SENATOR CASEY

Question 1. Based on this data, what would be the effects of a minimum wage increase to $10.10 for kids living in or near poverty? How do the effects of a raise to $10.10 differ from a raise to $9 for kids living in or near poverty?

Answer 1. Raising the minimum wage is an important anti-poverty tool as the current minimum wage leaves too many families in poverty. And many of these families in poverty have young children. Earning the current Federal minimum wage, a minimum-wage earner working 40 hours a week every week of the year would earn $15,080 over the year. This income puts a single adult just barely above the poverty line. But if that worker has to support any other people—such as a child—then this family would be living below the U.S. poverty threshold. The poverty line for a family with one non-elderly adult and two children was $18,769 in 2013.[19] Therefore, a full-time minimum-wage earner with two children and no spouse would come up short by $3,689 each year.

Increasing the minimum wage to $10.10 by 2016, which would equal $9.45 in 2013 dollars, would boost the earnings of low-wage workers and reduce poverty. At that minimum wage, a full-time, full-year worker would earn $19,656 in 2013 dol-

lars over the course of the year, assuming they never take a day off without pay, and be able to support two children as a single earner and be above the official poverty threshold.

Raising the minimum wage to $9 by 2016, equal to $8.42 in 2013 dollars, would be less effective in combating poverty. In this scenario, a full-time, full-year minimum wage earner would earn $17,514 in 2013 dollars in 1 year. Not only would she make about $2,100 less than she would under the $10.10 proposal, but more importantly her income would put her and two dependents under the poverty threshold.

Nearly a quarter (23 percent) of the workers who will benefit from the Fair Minimum Wage Act currently live in a family earning less than $20,000 in a year, just above the poverty threshold of $18,769 for a family of one adult and two children. Just under 52 percent of workers who will benefit live in a family making below $40,000 a year, which is closer to what many surveys show is what people believe is a basic standard of living for a family of four.[20]

Question 2. In your testimony, you discuss the importance of a minimum wage increase working in tandem with income support policies. What are the effects on anti-poverty programs when wages are raised for low-wage workers?

Answer 2. The minimum wage is an important anti-poverty tool, but it works in concert with other programs. Increasing the minimum wage would help reduce the burden on other anti-poverty programs.

Low-wage workers are eligible for a variety of benefits aimed at boosting incomes or helping them afford basics, such as housing, health care, or childcare. This is important since many basics, especially health care, childcare, and housing, are too expensive at market rates for low-income workers and their families. Childcare alone can eat up a large portion of a minimum wage workers' income. It is imperative that these programs work in tandem and that Congress—and State policymakers—consider the interaction effects of changing any of these policies. In many cases, the States set the rules for program eligibility, with some guidelines from the Federal Government, so engaging them in this conversation is a must.

In the mid-1990s when Congress implemented welfare reform, Congress did a very good job putting all these pieces together by looking at the benefits and income supports for low-wage workers and their families as a package. Within a short span of time, Congress implemented welfare reform, while also raising the minimum wage, expanding the EITC, expanding access to children's health through the State Children's Health Insurance Program, and expanding childcare subsidies. Only by putting a full basket of policies together will low-wage workers be able to rise out of poverty and into the middle class. The minimum wage is a core piece of this puzzle, but it is not the only piece.

By boosting the wages of workers, a minimum wage increase would reduce spending on means-tested public programs. A recent report by researcher Rachel West and economist Michael Reich found that an increase in the minimum wage to $10.10 would reduce Federal spending on SNAP by 6 percent or $4.6 billion a year. A higher minimum wage could therefore reduce Federal spending, though not on a dollar for dollar basis. CBO's report on the minimum wage increase also points out that raising the minimum wage would decrease spending through an overall reduction in public benefits.[21] Raising the minimum wage would help reduce Federal Government spending while helping low-income workers instead of harming them.

Question 3. Unfortunately, Federal spending on anti-poverty programs is already being cut, without any increase in the Federal minimum wage. What are the detrimental effects of cutting assistance without raising wages?

Answer 3. Reducing benefits for low-wage workers would throw many into poverty. Consider the impact of the Earned Income Tax Credit. The EITC is a refundable tax credit for low-income families that is larger for those with more dependent children. The EITC is an effective anti-poverty policy that lifts millions of Americans out of poverty. In 2012, the EITC lifted 6.5 million people out of poverty, according to the Center Budget and Policy Priorities.[22]

Looking at the data, we can see how the minimum wage and the EITC work together to pull families out of poverty. At the current minimum-wage level, a single earner (full-time, full-year) with two dependents would receive $5,372 from the EITC for a total after-Federal income of $20,452 putting them above the poverty line (although workers may need to pay State income taxes and will owe payroll taxes). A reduction in the EITC could very easily throw families back into poverty.

SENATOR MURRAY

Question 1. Can you just clarify for us the fact that study after study shows no significant impact on jobs—either negative or positive—from raises in the minimum wage? In my State of Washington, for example, when we raised our minimum wage, there was no great loss of jobs, or a flight of jobs to Idaho or Oregon, was there?

Answer 1. Careful studies of the economics literature find that increases in the minimum wage have little to no effect on employment.[23] Economists David Card, of the University of California, Berkeley, and Alan Krueger, of Princeton University, looked at the effects of a minimum wage hike in New Jersey by comparing fast food restaurant employment in the State to fast food employment in Pennsylvania which did not increase its minimum wage.[24] Card and Krueger found that the increase in the minimum wage did not reduce employment. Their approach has been generalized in later research. Research by Arindrajit Dube, T. William Lester of the University of North Carolina–Chapel Hill, and Michael Reich of the University of California, Berkeley looked at all of the bordering counties that have different minimum wages between 1990 and 2006.[25] They too found that minimum wage did not have a significant effect on employment.

One reason that employment has not been shown to fall due to raising the minimum wage is because higher wages can make workers more productive and therefore more valuable to their employer. Economists call this the "efficiency wages" theory.[26] There is an extensive literature on efficiency wage theory, with notable contributions from Nobel Laureates Joseph Stiglitz[27] and George Akerlof,[28] which suggest that paying more than the market-clearing wage can make firms more productive.

Here are just two academic studies that prove these points. John Schmitt, a Senior Economist at the Center for Economic and Policy Research, finds empirical economics research suggesting efficiency gains.[29] And in a 2011 study, Georgia State University economists Barry Hirsch and Bruce Kaufman, along with Tetyana Zelenska from Innovations for Poverty Action, examined the effect of a Federal increase in the minimum wage on 81 restaurants in Georgia and Alabama.[30] In their survey, managers reported that they could identify possible non-wage savings and productivity improvements in response to the minimum-wage regulations. It is possible that lower costs stemming from these changes could outweigh the costs of paying a higher minimum wage.

A higher minimum wage could also make staying in a job more attractive and thus reduce turnover costs. A 2013 working paper by UMass-Amherst economist Arindrajit Dube, University of North Carolina, Chapel Hill economist William Lester, and UC-Berkeley economist Michael Reich finds that a higher minimum wage leads to fewer so-called "hires and separations," or worker turnover.[31] Other empirical studies suggesting that a higher minimum wage—or a "living wage" covering basic needs—can reduce labor turnover and include studies of workers in San Francisco[32] (including airport[33] and homecare workers[34]) and Los Angeles.[35] Lower turnover costs could potentially allow businesses to overcome the increased cost of paying a higher wage.

Washington State is a good example of the experience of States raising the minimum wage. The State has the highest minimum wage in the country and, as a recent Bloomberg story pointed out, its job creation rate is higher than the national average. Washington shows that minimum wage increases are not harmful to job creation.[36]

Question 2. In 1968, the minimum wage was able to lift a family income 20 percent above the poverty level. Today, earning a minimum wage leaves a family nearly 20 percent below the poverty level. From your perspective, what does having so many millions of workers living in poverty mean to our Nation's ability to compete, to be just, and to give everyone the full opportunity to make the most of themselves and for their children.

Answer 2. Keeping a large swath of our population in poverty is not only a moral problem for the United States, but it also could harm our economy. High levels of poverty and inequality may lead to lower levels of economic mobility and opportunity in the future. Research by Raj Chetty of Harvard University and others find that areas with higher levels of inequality have lower levels of economic mobility for children.[37] By leaving children in poverty, we may restrict their ability to improve their position in life and fully participate in the American economy. If some Americans cannot engage fully in our economy, we could all be at a loss.

Question 3. Ms. Boushey, will raising the minimum wage make people poorer? Will it destroy jobs? Will it cause youth unemployment to skyrocket?

Answer 3. Raising the minimum wage will reduce poverty. According to academic research, raising the minimum wage to $10.10 an hour will reduce the poverty rate for non-elderly Americans to 15.8 percent by 2016 from current 17.5 percent levels.[38] This increase would bring about 6.8 million people out of poverty, while not reducing employment.

Raising the minimum wage will help family breadwinners support their children. The typical minimum wage earner brings in half of their family's income. Congress should also take care to make sure that other benefits for low-wage workers provide a full package for low-wage workers and their families as families will also need help with access to affordable and quality health care, paid sick days, paid family leave, childcare, and housing, even at a higher minimum wage.

Raising the minimum wage will have positive economic effects above and beyond lowering the poverty rate. Economic research points to the conclusion that a higher minimum wage does not cause greater unemployment, boosts productivity, and addresses the growing problem of rising income inequality.

Question 4. Will raising the minimum wage, in fact, likely reduce the use of public benefits, and in turn have a positive impact on the Federal budget?

Answer 4, By boosting the wages of workers, a minimum wage increase would reduce spending on means-tested public programs. A recent report by researcher Rachel West and economist Michael Reich found that an increase in the minimum wage to $10.10 would reduce Federal spending on SNAP by 6 percent or $4.6 billion a year. A higher minimum wage could therefore reduce Federal spending. CBO's report on the minimum wage increase also points out that raising the minimum wage would decrease spending through an overall reduction in public benefits.[39] Raising the minimum wage would help reduce Federal Government spending and make it easier to balance the budget while actually helping low-income workers instead of cutting programs that help them.

ENDNOTES

1. Congressional Budget Office, "The Effects of a Minimum-Wage Increase on Employment and Family Income," (Washington, DC: Congressional Budget Office, 2014), *http://www.cbo.gov/publication/44995*.

2. CBO's figures differ with mine in several places because they use the price index for Personal Consumption Expenditures instead of the CPI–U Research Series that I use in my calculations in this testimony. The PCE is a chain-weighted price index calculated by the Bureau of Economic Analysis that shows a slower rate of inflation than the CPI–U–RS series. Using the PCE, the minimum wage had a purchasing power of $6.76 in today's dollars in 1973. Using the CPI–U–RS, that figure would be $7.50. I believe the CPI–U–RS to be a better measure to use in this case because the PCE was not originally designed as a deflator of cash income and includes prices not directly faced by consumers. See Dean Baker, "Deflators and the Purchasing Power of the Minimum Wage," CEPR Blog, available at *http://www.cepr.net/index.php/blogs/cepr-blog/deflators-and-the-purchasing-power-of-the-minimum-wage*.

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11. Daniel Raff and Lawrence Summers, "Did Henry Ford Pay Efficiency Wages?," *Journal of Labor Economics* 5, no. 4 (1987): S57–S86, *http://www.jstor.org/discover/10.2307/2534911?uid=3739584&uid=2&uid=4&uid=3739256&sid=21103455575693*; Barry T. Hirsch, Bruce E. Kuafman, and Tetyana Zelenska, *Minimum Wage Channels of Adjustment*, Discussion Paper, IZA Discussion Paper (Bonn, Germany: Institute for the Study of Labor, November 2011), *http://www2.gsu.edu/~ecobth/IZA_MinWageCoA_dp6132.pdf*.

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RESPONSE BY SISTER SIMONE CAMPBELL, SSS, TO QUESTIONS OF SENATOR HARKIN, SENATOR CASEY, AND SENATOR MURRAY

SENATOR HARKIN

Question 1. It is wonderful to have you here to speak about the moral and ethical reasons for economic justice policies like a strong minimum wage. Many critics of raising the minimum wage say that government should play no role in setting a minimum rate of pay, that it should be left to businesses to decide their own wages, and to private charities to help those in need. What does the Catholic faith tradition say about the need for a *government* role in setting fair wages and addressing the problem of poverty?

Answer 1. Our Catholic Faith teaches that the role of government is to counter the excesses of any society. In our free market capitalist system and our propensity to individualism, our faith calls us to an awareness of the common good and defines the role of government to ensure that wages are just. Pope Francis says in his exhortation, Joy of the Gospel (published in November 2013) that,

> "The need to resolve the structural causes of poverty cannot be delayed, not only for the pragmatic reason of its urgency for the good of society, but because society needs to be cured of a sickness which is weakening and frustrating it, and which can only lead to new crises." (Paragraph 202).

It is in this context that Pope Francis says that,

> "We can no longer trust in the unseen forces and the invisible hand of the market. Growth in justice requires more than economic growth, while presupposing such growth: it requires decisions, programs, mechanisms and processes

> specifically geared to a better distribution of income, the creation of sources of employment and an integral promotion of the poor which goes beyond a simple welfare mentality."

This task of creating these means is the role of government. This includes just wages that will move workers beyond poverty and into self-sufficiency. The Pope points out that the market driven only by profit will not do this on its own. Government must step in to protect workers and all of society by mandating a minimum that will protect the entire society. He states at paragraph 192 that "A just wage enables [workers] to have adequate access to all the other goods which are destined for our common use."

Finally he states:

> "Politics, though often denigrated, remains a lofty vocation and one of the highest forms of charity, inasmuch as it seeks the common good."

He goes on to say that this charity is shaping macrorelationships including economic decisions about wages and the direction of the economy. Minimum wage is one such policy that can ensure justice for workers, limits exploitation by the markets and creates a society where all benefit equitably from their work.

But this teaching is not new to Pope Francis. It has been part of our faith since Pope Leo XIII encyclical (letter) *Rerum Novarum* published in 1891. For example, Pope John Paul II explains in *Centesimus Annus*:

> "The State has the task of determining the juridical framework within which economic affairs are to be conducted, and thus of safeguarding the prerequisites of a free economy, which presumes a certain equality between the parties, such that one party would not be so powerful as practically to reduce the other to subservience. . . . The State must contribute to the achievement of these goals [of just working conditions] both directly and indirectly. Indirectly . . . by creating favorable conditions for the free exercise of economic activity, which will lead to abundant opportunities for employment and sources of wealth. Directly . . . by defending the weakest, by placing certain limits on the autonomy of the parties who determine working conditions, and by ensuring in every case the necessary minimum support for the unemployed worker."

Question 2. Some argue that raising the minimum wage won't help the poor because most minimum wage workers aren't poor. While I disagree with this—in fact raising the minimum wage would help millions of poor and low-income families—what do you think, Sister Campbell? Should a fair minimum wage be part of our national efforts to address poverty?

Answer 2. Absolutely!

A worker should be able to support a family from the wages earned. It is shocking that people in the richest nation on earth would work full-time and still live in poverty. This undermines the inherent dignity of workers and what they do and makes workers dependent on a social safety net that was geared for those who are in crises. By forcing hard working people into the safety net, politicians opposing minimum wage are saying that work should not pay. We need to put people back at the center of the economy, especially through valuing work and workers with a just wage.

More broadly raising the minimum wage is a step toward reducing income and wealth inequality, which we know and Pope Francis reminds us is the root of all social ills. Income and wealth inequality erodes the quality of life for the 100 percent. Wilkinson and Pickett's *Spirit Level* amply demonstrates that in nations where there is increased inequality the quality of life deteriorates for all. Raising the minimum wage would be a step toward reducing this inequality and improving life for the 100 percent.

SENATOR CASEY

Thank you for your efforts and the work of your organization to promote awareness of the difficulties faced by those living in or near poverty in this country. We have too many people, many with jobs, who struggle every day to support themselves and their families. There are government programs out there to provide assistance and non-profit groups working to offer support, but the need still far outweighs the available assistance.

Question 1. How would a raise in the minimum wage (putting extra money directly into the pockets of low-wage workers) affect the ability of anti-poverty programs (government and non-profit) to serve those in need?

Answer 1. Raising the minimum wage is a necessary companion to other anti-poverty programs because:

a. Raising the minimum wage enhances the independence and self-sufficiency of workers and allows them and their families to live in dignity. By having a wage that allows workers to pay for their families' needs, it will remove them from safety net programs and save those programs for those that are in crisis.

b. Many anti-poverty programs have eligibility requirements that limit their reach in a way a wage increase will not.

c. The stability of a paycheck helps pay for recurring expenses and helps a person plan financially without worrying about changes in eligibility or loss of benefits.

d. Responding to the erosion of the buying power of the minimum wage with government anti-poverty programs rather than raising the minimum wage effectively makes taxpayers, rather than business owners, responsible for providing reasonable income to hard working people. Our safety net programs were never intended to be a long term supplement to wages of full-time workers. *http://www.nwlc.org/sites/default/files/pdfs/minimumwageandeitc–2.pdf.*; *http://www.epi.org/blog/strengthening-eitc-raising-minimum-wage/.*

Question 2. In your testimony, you discuss the importance of dignity of work—when workers have the opportunity to support their families from their wages, instead of through assistance programs. What are the psychological and emotional effects when workers are able to support themselves and their families directly through their own wages?

Answer 2. Perhaps the best example of the importance of the dignity of work is Sharon who I met in Detroit. She had cobbled together a variety of safety net programs to support herself and her family. She had a part-time job, SNAP, housing subsidy and LIHEAP to name a few. She was hampered in her ability to work because of her limited education. With the assistance of Mercy Center who helped her learn to read and get her GED, she was able to graduate to full-time employment and leave the safety net behind. She said that what she enjoyed most was her 3 daughters knowing that she was able to provide for them. She was proud of her hard work in overcoming her dyslexia and her commitment to her children. While budgeting and planning was challenging, she now has a completely new lease on life as she feels capable of planning for her family's future.

Question 3. How does more money directly in workers' pockets affect their purchasing power and flexibility in providing for their families?

Answer 3. Wages are the key way to create financial stability for families. It gets needed resources into the hands of hard working people. With that they can purchase needed goods and services as well as saving for the future. Perhaps the most important thing wages do, is to allow the family to have a sense of security and unity as they work together to improve their situation. Regular paychecks help create financial stability, frees a family to plan and possibly even to save.

Erosion of value of purchasing power of minimum wage over 30+ years has already greatly affected families' access to basic necessities (healthcare, gas, groceries, childcare), the cost of which has been rising over that same period. By raising the minimum wage to something even approaching the buying power of the 1970s will allow families to care for their own needs. This means that they will be able to put money back into the economy buying school clothes for children, necessities for the home and being able to plan larger purchases.

SENATOR MURRAY

More than most, you have been a great advocate for equality and social justice. And that's what this is really all about—social justice. And it's not a just situation that a mom working full-time may still live in poverty. If you work full-time, you shouldn't be poor.

Question. I'm sure you've spent quite a bit of time talking with workers on the lowest rungs of our economy. Many of whom work in the service sector, and many of whom work for tips. Servers in restaurants make up the largest group of tipped workers, and have three times the poverty rate of the workforce as a whole. Yet it's been over 20 years since we raised the tipped minimum wage—it is still a shockingly low $2.13 per hour. So it's not surprising that servers—in a sad irony—also have to rely on food stamps at nearly double the rate of the general populations in order to feed themselves and their family.

Do you have any reaction to this?

Answer. I would just add that women are disproportionately affected in this group of tipped workers. The reality of low-wage workers is exacerbated by being a "tip-worker" to the point of cruelty with the unpredictability of tips. Having to rely on the "kindness of strangers" to pay for your family's needs is as cruel as it is unpre-

dictable. It also should be noted that several States have done away with the distinction between tipped and non-tipped workers without an adverse impact on the employers.

I also want to point out that poverty rates for African-American and Latino servers are significantly higher than servers who are white. This increases the racial income and wealth gap in our Nation. A key way forward would be to make sure that the tipped workers are put on a par with all workers in their capacity to be able to support their families as they work in our society to contribute to the economy. Everyone who works should be justly compensated.

RESPONSE BY ALICIA MCCRARY TO QUESTIONS OF SENATOR HARKIN AND SENATOR MURRAY

SENATOR HARKIN

Question. Please tell me more about the program you are participating in with North Iowa Community Action, called Family Development and Self-Sufficiency Program, or FaDSS. What does it involve? How has it aided you?

Answer. I have been working with FaDSS for over a year. When my FaDSS worker comes to my home every month, she helps me set goals that need to be accomplished and also helps me meet those goals. We have worked on budgeting and I receive information on other resources that can help me and my family. FaDSS helps me stay focused on the next steps I need to take in my life, in order to get off and stay off government assistance.

FaDSS is a supportive service to assist Family Investment Program (FIP) families with significant or multiple barriers reach self-sufficiency. The Department of Human Services contracts with the Department of Human Rights, Division of Community Action Agencies to administer the FaDSS Grant Program. The Department of Human Rights subcontracts with 18 grantees statewide to provide FaDSS services. Referral to FaDSS is made through the Department of Human Services, PROMISE JOBS Program, other third-party sources, and self-referrals. Participation in FaDSS is a voluntary option for people receiving Family Investment Program (FIP) benefits. FaDSS provides services that promote, empower, and nurture families toward economic and emotional self-sufficiency. The foundation of FaDSS is regular **home visits** with families, using a strength-based approach. Core services include support, goal setting, and assessment. **Support** is given in many ways such as referrals, group activities, linking families to communities and advocacy. **Assessment** aids the family to identify strengths that they possess that may be used to eliminate barriers to self-sufficiency. **Goal setting** helps families break down goals that seem out of reach into small steps that will lead to success.

SENATOR MURRAY

Question 1. Can you share what an increase in the minimum wage would mean to you and your family?

Answer 1. An increase in minimum wage would help me budget better and pay my bills on time. Having higher wages would make it easier for the boys to participate in sports at the same time, get haircuts at the same time and would be able to provide them with clothing that keeps up with their growth spurts. If the minimum wage was increased, I would even be able to start a savings account.

Question 2. As you know, we are proposing annual increases in the minimum wage to keep up with rising prices for food, clothing, gas, and the like. What will it mean to you to know that you can count on just a little additional income each year in return for your hard work?

Answer 2. It would mean so much to me if I received additional income each year; I could actually focus on budgeting without being stressed about daily needs. I work very hard every day and it would mean a lot to me and my family.

[Whereupon, at 10:45 a.m., the hearing was adjourned.]

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